CATTLE RAISERS CONVENTION

TEXAS AND SOUTHWESTERN CATTLE RAISERS ASSOCIATION

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TSCRA School for Successful Ranching
March 21-23, 2013
Schedule

Thursday, March 21 – D Bar B Ranch, Aledo, TX

12:00 noon
Registration opens. Bring your ticket!

1:00 p.m. – 5:00 p.m.
Rotation between each of the following stations:
- *Weed and Brush Control*
- *Plant Identification*
- *Grass Production and Soil Health*
- *Cattle Body Condition Scores and Forage Nutrition Requirements*

Friday, March 22 – Fort Worth Convention Center

6:30 a.m.
Registration Opens

7:00 a.m. – 8:00 a.m.
Breakfast – Sponsored by C.H Guenther and Sons

8:00 a.m. – 8:40 a.m.
General Session – Ballroom C
Featuring Donnell Brown of R.A. Brown Ranch

8:45 a.m. – 9:45 a.m. (choose one)
- **Pasture, Rangeland, & Forage Insurance: Making it Work for You – Ballroom C**
  Marc Shepard, Hargrove Ranch Insurance
  Rafe Hargrove, Hargrove Ranch Insurance
  Chuck Coffey, Co-Owner, Double C Cattle Co.
- **Agricultural Transactions: How to Protect Yourself – Room 201ABC**
  Chad Lee, Law Office of Chad Lee
- **Conservation Easements: Can it Work for You? – Room 202AB**
  Larry Kueter, Law Office of Lawrence Kueter

9:55 a.m. – 10:55 a.m. (choose one)
- **Tax Implications of a Prolonged Drought – Room Ballroom C**
  Mike Dunlap, CPA
- **Effects of the Corn Market on the Cattle Industry – Room 201ABC**
  Dr. Mark Welch, Texas A&M AgriLife Extension Service
- **Estate Planning – Room 202AB**
  C. Beth Roberts, Lincoln Financial Group

11:05 a.m. – 12:05 p.m. (choose one)
- **Is it Time to Re-Stock? – Ballroom C**
  Hugh Aljoe, Noble Foundation
  Chuck Coffey, Noble Foundation
  Steve Swigert, Noble Foundation
- **Retiring into Ranching – Room 201ABC**
  Dr. Rick Machen, Texas A&M AgriLife Extension Service
- **Private Property Rights on the Ranch Level – Room 202AB**
  Zach Brady, Brady and Hamilton, LLP

12:05 p.m. – 1:30 p.m.
Lunch in the Cattle Raisers Expo

Friday, March 30 – Fort Worth Convention Center (cont.)
All afternoon sessions are repeats of the morning session

1:30 p.m. – 2:30 p.m. (choose one)
- **Pasture, Rangeland, & Forage Insurance: Making it Work for You – Ballroom C**
  Marc Shepard, Hargrove Ranch Insurance
  Rafe Hargrove, Hargrove Ranch Insurance
  Chuck Coffey, Co-Owner, Double C Cattle Co.
- **Agricultural Transactions: How to Protect Yourself – Room 201ABC**
  Chad Lee, Law Office of Chad Lee
- **Conservation Easements: Can it Work for You? – Room 202AB**
  Larry Kueter, Law Office of Lawrence Kueter

2:45 p.m. – 3:45 p.m. (choose one)
- **Tax Implications of a Prolonged Drought – Room Ballroom C**
  Mike Dunlap, CPA
- **Effects of the Corn Market on the Cattle Industry – Room 201ABC**
  Dr. Mark Welch, Texas A&M AgriLife Extension Service
- **Estate Planning – Room 202AB**
  C. Beth Roberts, Lincoln Financial Group

4:00 p.m. – 5:00 p.m. (choose one)
- **Is it Time to Re-Stock? – Ballroom C**
  Hugh Aljoe, Noble Foundation
  Chuck Coffey, Noble Foundation
  Steve Swigert, Noble Foundation
- **Retiring into Ranching – Room 201ABC**
  Dr. Rick Machen, Texas A&M AgriLife Extension Service
- **Private Property Rights on the Ranch Level – Room 202AB**
  Zach Brady, Attorney, Brady and Hamilton

Saturday, March 23 – Fort Worth Convention Center

7:00 a.m.
Registration Opens

7:00 a.m. – 8:00 a.m.
Breakfast – Sponsored by C.H Guenther and Sons

8:00 a.m. – 10:00 a.m. – Ballroom C
This year's School General Session is all about the future. Don't miss a great panel on what ranching for small producers will look like in the next 10-15 years to help you prepare your business. Panelists include James Henderson, Bradley 3 Ranch; Dennis Braden, Swenson Land and Cattle Co.; and Doug Slattery, 44 Farms. The panel will be moderated by Dr. Rick Machen, Texas A&M AgriLife Extension Service.

You will also hear an update on the 2013 legislative session and what it means for the future of your ranch from Jason Skaggs, TSCRA Executive Director of Government and Public Affairs.

10:30 a.m. – 12:30 p.m. – Ballroom AB
Opening General Session of the Convention "Startling Realities of the 21st Century: What's Really Going on?" featuring economist, futurist, and investment consultant, Don Reynolds.

12:30 p.m. – 2:30 p.m.
Lunch in the Cattle Raisers Expo

WE WANT YOUR INPUT!

DON'T FORGET TO FILL OUT THE SCHOOL SURVEY AT THE BACK OF THE PROCEEDINGS!

BE SURE TO VISIT THE CATTLE RAISERS EXPO!

Thanks to our 2013 School for Successful Ranching Sponsors!

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CATTLE RAISERS CONVENTION

TEXAS AND SOUTHWESTERN CATTLE RAISERS ASSOCIATION

PASTURE, RANGELAND, AND FORAGE INSURANCE: MAKING IT WORK FOR YOU

Ballroom C

Speakers:

Chuck Coffey, Co-Owner, Double C Cattle Co.

Marc Shepard, Hargrove Ranch Insurance

Rafe Hargrove, Hargrove Ranch Insurance

Overview of USDA's Pasture, Rangeland, and Forage Program

TSCRA 2013 School for Successful Ranching

AGENDA

- Introduction
- Overview - Understanding the Rainfall Insurance Program
- Availability
- Application Process/Timeline
- Example Estimates
- Coverage Details
- Wrap Up/Strategies
- Q&A

INTRODUCTION

WHO WE ARE

HARGROVE RANCH INSURANCE

Rafe Hargrove & Marc Shepard

INTRODUCTION
GOD MADE A FARMER

INTRODUCTION
WHEN IS IT GOING TO RAIN?

OVERVIEW

- PRF is managed by USDA’s Risk Management Agency (RMA). This is the same branch of the USDA that manages the federal crop insurance program.
- Allows ranchers and hay farmers to insure a percentage of the average rainfall in selected two-month intervals throughout the year.
- USDA subsidizes up to 59% of the premium.
- While the PRF program is not perfect and the accuracy of individual intervals will vary, government subsidies ensure that the program will be to your long-term financial advantage.
- Unlike other forms of insurance (life, auto, home, health, etc.), if you stay in, you will make money.

OVERVIEW

- Based on insuring a percentage of average rainfall in your area for up to six, two-month periods.
- The historical and average rainfall for each two month period are recorded by NOAA's Climate Prediction Center.
- Claims are calculated and generally paid within 60 days from the end of each two-month period.
- Provides immediate relief to help cover increasing feed costs throughout the year.
- Generally requires only ONE two-month period receiving 35-45% of average rainfall to cover the premium for the entire year.
- Each interval is independent of all other intervals. An 8" rain in August will only impact intervals which include August rainfall.

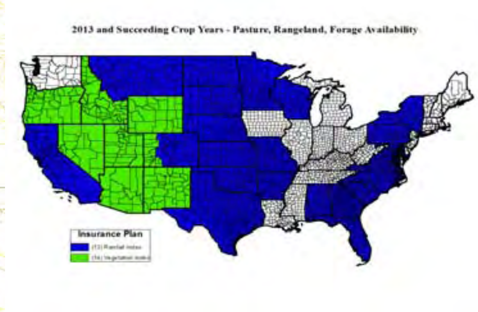
OVERVIEW

- The value of rain on hayland can vary from 5x to 25x that of normal grazingland depending on the area of the state that you are located in.
- It's simple. There are no record keeping or reporting requirements. Claims are automatically calculated and paid once NOAA finalizes the actual rainfall for the previous two-month period.
- There are no gross income or payment limits.

AVAILABILITY

- Prior to 2010, Oklahoma was based on a vegetative index taken from satellite imagery.
- In 2010, USDA moved Oklahoma to a rainfall-based index using actual rain gauges.
- Rainfall program is now available in all counties in Oklahoma, Texas, Arkansas, and Kansas.

AVAILABILITY



APPLICATION PROCESS

- Contact an Agent: www.rma.usda.gov/policies/ri-vi/
- You will need to know your Farm Serial Number (FSN). If you don't have an FSN, your local Farm Service Agency (FSA) office can assist you. This is free of charge.
- Together with the Agent, verify the grid(s) in which your ranch (FSN) is located and complete application/acreage report. Due by November 15, 2013 for a 2014 policy.
- 2014 policies follow the calendar year and go into effect on the first day of the first insured interval of 2014.
- Bills for outstanding premium on 2014 policies will be issued in early September, 2014, and due by September 30, 2014.

EXAMPLE ESTIMATES
Area Comparisons

		70		75		80		85		90	
		Prem/ Acre	10 Year Net/Acre	Prem/A cre	10 Year Net/Acre	Prem/ Acre	10 Year Net/Acre	Prem/ Acre	10 Year Net/Acre	Prem/ Acre	10 Year Net/Acre
Far West TX	Jeff Davis County	$0.63	$11.93	$0.72	$12.18	$0.91	$13.85	$1.03	$15.23	$1.27	$15.57
Oklahoma	Carter County	$0.79	$14.51	$0.94	$17.26	$1.21	$19.00	$1.41	$21.54	$1.78	$22.50
Panhandle	Potter County	$0.85	$10.95	$0.91	$12.54	$0.97	$13.56	$1.03	$15.18	$1.10	$15.94
South TX	McMullen County	$0.88	$15.72	$1.02	$17.59	$1.27	$18.53	$1.44	$20.44	$1.77	$20.94
East TX	Smith County	$1.77	$26.20	$2.25	$31.52	$3.00	$35.32	$3.60	$40.96	$4.63	$43.23

* Based on 2013 rates

EXAMPLE ESTIMATES

East Texas Hay Estimate – Smith County

(BASED ON COVERAGE ALL YEAR)

Smith Pasture, Rangeland, and Forage (Hayland) RI

Level	Price	Acres	Liability	Premium	10 yr Net Gain
90%	150%	100.2	$30,198	$2,558	$26,368
85%	150%	100.2	$28,524	$1,993	$23,899
80%	150%	100.2	$26,844	$1,669	$19,603
75%	150%	100.2	$25,170	$1,259	$17,303
70%	150%	100.2	$23,490	$1,010	$14,182

EXAMPLE ESTIMATES

East Texas Grazing Estimate – Henderson County

(BASED ON COVERAGE ALL YEAR)

Henderson Pasture, Rangeland, and Forage (Grazingland) RI

Level	Price	Acres	Liability	Premium	10 yr Net Gain
90%	150%	1,000.2	$52,338	$4,632	$43,226
85%	150%	1,000.2	$49,428	$3,599	$40,963
80%	150%	1,000.2	$46,518	$2,997	$35,322
75%	150%	1,000.2	$43,620	$2,236	$31,523
70%	150%	1,000.2	$40,710	$1,770	$26,207

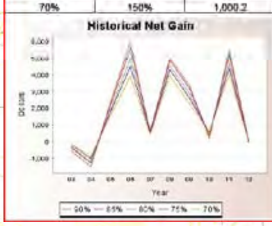
EXAMPLE ESTIMATES

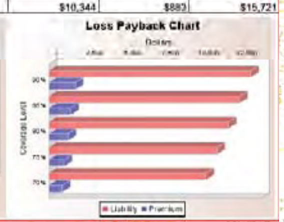
South Texas Grazing Estimate – McMullen County

(BASED ON COVERAGE ALL YEAR)

McMullen Pasture, Rangeland, and Forage (Grazingland) RI

Level	Price	Acres	Liability	Premium	10 yr Net Gain
90%	150%	1,000.2	$13,302	$1,766	$20,939
85%	150%	1,000.2	$12,564	$1,439	$20,436
80%	150%	1,000.2	$11,820	$1,270	$18,530
75%	150%	1,000.2	$11,082	$1,016	$17,592
70%	150%	1,000.2	$10,344	$883	$15,721

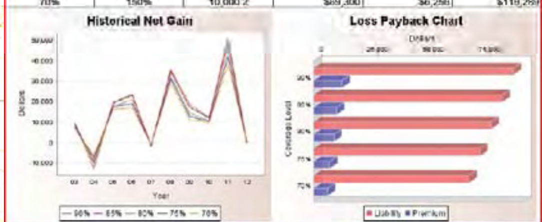




EXAMPLE ESTIMATES
West Texas Grazing Estimate – Jeff Davis County
(BASED ON COVERAGE ALL YEAR)

Jeff Davis Pasture, Rangeland, and Forage (Grazingland) RI

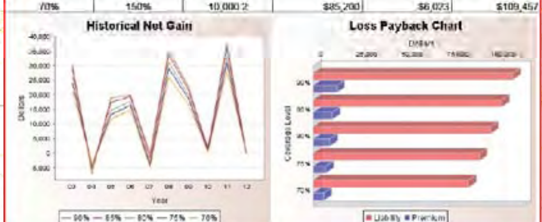
Level	Price	Acres	Liability	Premium	10 yr Net Gain
90%	150%	10,000.2	$89,100	$12,699	$155,850
85%	150%	10,000.2	$84,204	$10,339	$152,297
80%	150%	10,000.2	$79,200	$9,101	$138,532
75%	150%	10,000.2	$74,202	$7,230	$131,762
70%	150%	10,000.2	$69,300	$6,256	$118,289



EXAMPLE ESTIMATES
Panhandle Grazing Estimate – Potter County
(BASED ON COVERAGE ALL YEAR)

Potter Pasture, Rangeland, and Forage (Grazingland) RI

Level	Price	Acres	Liability	Premium	10 yr Net Gain
90%	150%	10,000.2	$109,500	$12,920	$159,356
85%	150%	10,000.2	$103,404	$10,350	$151,838
80%	150%	10,000.2	$97,302	$8,981	$135,568
75%	150%	10,000.2	$91,200	$7,056	$125,360
70%	150%	10,000.2	$85,200	$6,023	$109,457

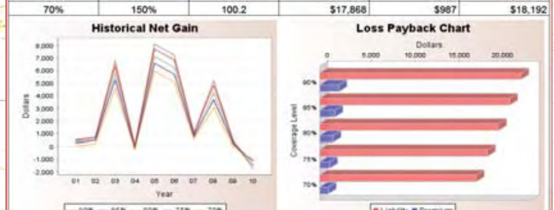


EXAMPLE ESTIMATES
Oklahoma Hay Estimate – Carter County
(BASED ON COVERAGE ALL YEAR)

Multi-Level Estimate

Carter Pasture, Rangeland, and Forage (Hayland) RI

Level	Price	Acres	Liability	Premium	10 yr Net Gain
90%	150%	100.2	$22,974	$2,234	$28,249
85%	150%	100.2	$21,696	$1,773	$27,022
80%	150%	100.2	$20,418	$1,518	$23,826
75%	150%	100.2	$19,146	$1,175	$21,675
70%	150%	100.2	$17,868	$987	$18,192

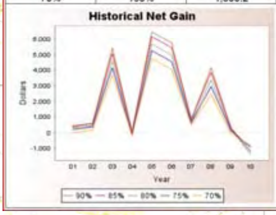


EXAMPLE ESTIMATES
OKLAHOMA GRAZING ESTIMATE – CARTER CTY.
(BASED ON COVERAGE ALL YEAR)

Multi-Level Estimate

Carter Pasture, Rangeland, and Forage (Grazingland) RI

Level	Price	Acres	Liability	Premium	10 yr Net Gain
90%	150%	1,000.2	$18,312	$1,782	$22,504
85%	150%	1,000.2	$17,292	$1,413	$21,540
80%	150%	1,000.2	$16,272	$1,209	$18,997
75%	150%	1,000.2	$15,252	$937	$17,256
70%	150%	1,000.2	$14,244	$786	$14,510



COVERAGE DETAILS
Index Intervals – 2-month periods

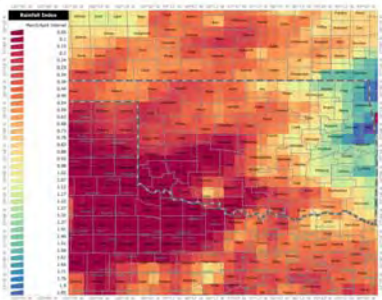
Index Interval	Percent of Value (%)	Policy Protection per Unit	Premium Rate per $100	Total Premium	Premium Subsidy	Producer Premium	Actual Index Value	Indemnity
Jan-Feb	10	$730	21.67	$158	$86	$72	232.9	$0
Feb-Mar	N/A	$0	18.54	$0	$0	$0	126.9	$0
Mar-Apr	20	$1,460	16.59	$242	$133	$109	96.1	$0
Apr-May	N/A	$0	12.86	$0	$0	$0	39.4	$0
May-Jun	30	$2,189	16.12	$352	$193	$159	56.4	$737
Jun-Jul	N/A	$0	22.10	$0	$0	$0	66.9	$0
Jul-Aug	10	$730	20.66	$150	$82	$68	88.6	$0
Aug-Sep	N/A	$0	21.60	$0	$0	$0	105.2	$0
Sep-Oct	30	$2,189	22.54	$493	$271	$222	48.1	$950
Oct-Nov	N/A	$0	24.28	$0	$0	$0	25.3	$0
Nov-Dec		$0	21.26	$0	$0	$0	30.5	$0
Per Acre	N/A	N/A	N/A	$2.33	$1.27	$1.05	N/A	$2.81
Policy Total	600	$7,298	N/A	$1,395	$765	$630	N/A	$1,687

COVERAGE DETAILS
Index Intervals – 2-month periods

Index Interval	Percent of Value (%)	Policy Protection per Unit	Premium Rate per $100	Total Premium	Premium Subsidy	Producer Premium	Actual Index Value	Indemnity
Jan-Feb		$0	21.67	$0	$0	$0	232.9	$0
Feb-Mar		$0	18.54	$0	$0	$0	126.9	$0
Mar-Apr	N/A	$0	16.59	$0	$0	$0	96.1	$0
Apr-May	50	$3,649	12.86	$469	$257	$212	39.4	$1,958
May-Jun	N/A	$0	16.12	$0	$0	$0	56.4	$0
Jun-Jul	20	$1,460	22.10	$322	$177	$145	66.9	$311
Jul-Aug	N/A	$0	20.66	$0	$0	$0	88.6	$0
Aug-Sep	30	$2,189	21.60	$472	$259	$213	105.2	$0
Sep-Oct	N/A	$0	22.54	$0	$0	$0	48.1	$0
Oct-Nov		$0	24.28	$0	$0	$0	25.3	$0
Nov-Dec		$0	21.26	$0	$0	$0	30.5	$0
Per Acre	N/A	N/A	N/A	$2.11	$1.16	$0.95	N/A	$3.78
Policy Total	600	$7,298	N/A	$1,263	$693	$570	N/A	$2,269

COVERAGE DETAILS

Index Intervals – 2-month period example results



COVERAGE DETAILS

HOW DO WE DETERMINE RAINFALL GRIDS

- Rainfall is measured in a series of grids across the U.S.
- THERE IS NOT A GAUGE IN EACH GRID.
- Gauges are turned in daily and used in the determination of rainfall based on their distance from the center of each grid.

COVERAGE DETAILS

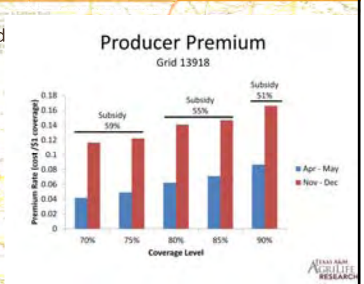
OPTIONS ACROSS GRIDLINES

COVERAGE DETAILS
NUMEROUS COVERAGE OPTIONS

- Ranchers may insure from 70-90% of average rainfall at 60-150% of a predetermined value of rain on land in your area. Dr. John Walker, from Texas A&M AgriLife Research in San Angelo, calculated there to be more than 27 million different coverage options.
- The coverage level behaves much like an insurance deductible – meaning you can adjust how much of the loss you are willing to bare.
- The Productivity Factor may vary between 60% and 150% of a county based valuation of grazing/hay acres. Your selection is equivalent to the value used to insure your home or auto.

COVERAGE DETAILS
NOT ALL COVERAGES ARE CREATED EQUAL

- The government subsidizes 59% of 70 and 75 percent coverage, 55% of 80 and 85 percent coverage, and only 51% of 90% coverage.
- Beware of the man that pushes 90% coverage without showing you other options. The premiums are much higher on a wet year or in a year you don't receive the rainfall of those in surrounding areas.



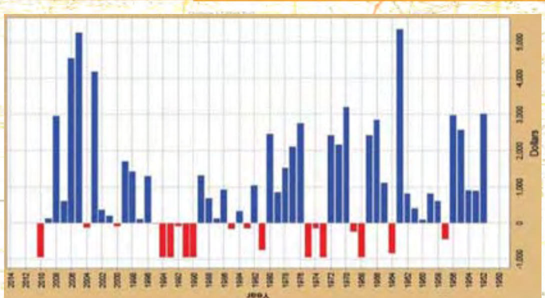
COVERAGE DETAILS
NOT ALL COVERAGES ARE CREATED EQUAL

- Net returns on a per acre basis will generally be higher when insuring higher coverage levels (85% or 90% of average rainfall).
- ROI will be less because of decreasing government subsidies.
- Don't buy so much coverage that you get out with the first wet year (because you had to pay the premium). If you get in, and stay in, you will make money. A lot of people got out of the program in 2010 because the first half of the year was wet.

COVERAGE DETAILS
HOW MANY INTERVALS DO I INSURE?

- On average, the number of intervals insured does not materially impact the net return per acre. It is somewhat like betting on green on a roulette wheel. The payout of a single interval is higher when you load coverage into fewer intervals. However, you have fewer chances to have a claim.
- Be cautious when insuring only Jan/Feb and Nov/Dec because of high historical returns. Like 2012, you might find that a small rain during historically dry periods may materially reduce or eliminate claim payments during an otherwise dry year. Moreover, your feed bills may remain high because of lack of critical, growing season, rainfall.
- Note: this would be much easier if we could convince USDA to let us make our interval decisions at the end of the year.

COVERAGE DETAILS
IS IT WORTH IT?



RISK MANAGEMENT VS. FINANCIAL PERFORMANCE

- You may select those intervals best matching your need for rain. Your options would be to either get the rain needed for adequate forage growth or have a claim.
- Coverage is geared to when you need the rain.
- What are the risks with this approach?
  - The grids are over 12 miles square. You may get credited for rainfall you don't receive.
  - This approach will likely result in a lower ROI than options designed to maximize historical profitability.
  - Historical trends and rainfall patterns may not be an accurate forecast of current or future weather trends

	15 yr (2010 - 1996) 5 yr (2010 - 2006)	Historical Loss Ratio (Claims divided by Subsidized Premium)									
Grid	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-Jul	Jul-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec
16032	2.49 3.54	1.40 1.35	2.57 0.00	3.70 0.73	2.95 2.85	2.75 3.44	3.12 1.82	2.85 2.31	2.38 3.68	2.01 2.72	1.91 2.86

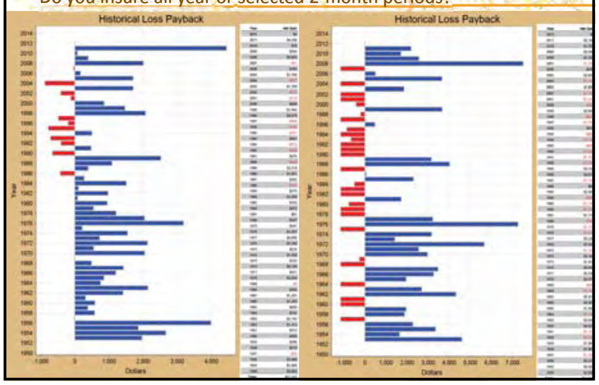
RISK MANAGEMENT VS. FINANCIAL PERFORMANCE

- Other options tend to focus on maximizing historical profitability by increasing coverage in selected two-month intervals and reducing or eliminating coverage in other intervals.
- This is not as easy as it may seem.
  - The grids are still over 12 miles square. You may get credited for rainfall you don't receive. Picking higher performing grids gives you fewer chances to have a claim.
  - What historical period most accurately reflects next year's rainfall? Is it the last 5, 10, 15, 25, or 60 years?
  - Some approaches may be like betting green on a roulette wheel. The payout is much higher when you guess right, but there will be more years in which you have to pay the premium.
  - Many of the more profitable periods do not match up with when you most need the rain to grow grass.
  - You could end up getting small rains in Jan/Feb and Nov/Dec, have no claims during these normally dry periods, be required to pay a higher premium, and still owe large feed bills because you didn't get rain during the growing season..

	15 yr (2010 - 1996) 5 yr (2010 - 2006) Historical Loss Ratio (Claims divided by Subsidized Premium)										
Grid	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-Jul	Jul-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec
16932	2.49	1.40	2.57	3.70	2.95	2.75	3.12	2.85	2.36	2.01	1.91

RISK MANAGEMENT VS. FINANCIAL PERFORMANCE

Do you insure all year or selected 2-month periods?

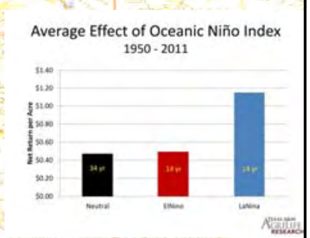


RISK MANAGEMENT VS. FINANCIAL PERFORMANCE

- The optimal model may be somewhere in between.
  - Work with an agent to model various scenarios.
  - Think about how much risk you want to bare.
  - Understand that you will not always get the rain.
  - Know, that over a longer period of time, you will receive more money in claims than you pay in premium.
  - Pray for Rain..

EL NINO, LA NINA… DOES IT MATTER?

- Texas A&M AgriLife Research did some great research on the impact of El Nino and La Nina weather patterns.
- As expected, the historical return is much higher during La Nina Patterns.
- However, they all generated a positive return.



WRAP UP
FARM BILL UPDATE

- Pending Farm Bill
- Senate passed/House out of Committee
- Rainfall Insurance left in tact
- Subsidy Changes?
- Payment Limit Changes?
- Livestock Forage Program (D3/D4 Drought) SURE program left unfunded
- Ad Hoc Disaster Payments a thing of the past?

WRAP UP
STRATEGY

- What we have learned
  - As Dr. Walker stated in an earlier presentation, we found out that the Weather Gods have not always studied the historical indices.
- Other options?
  - NAP (Noninsured Crop Disaster Crop Assistance)
    - Covers forage crops (perennial or annual)
    - 50% coverage @ 55% of the price
    - Record keeping
    - Payment limitations
    - Administered by FSA

WRAP UP

STRATEGIES?

Question / Answer

Thank you for your time.

CONTACT INFORMATION

- Hargrove Ranch Insurance
- 888-573-8975 – main office
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- Rafe Hargrove
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THE SAMUEL ROBERTS NOBLE FOUNDATION

AG News and Views

Originally published July 2012, revised 2013

ECONOMICS

USDA Rainfall Insurance Protects Against Dry Weather

by Job Springer / jdspringer@noble.org

Farmers and ranchers can control many aspects of the farm or ranch business. For instance, a rancher can dictate the calving season, controlling when and how their cattle are bred. They can determine what types of health care programs their cattle receive and the types of forages used for grazing and hay production. However, one production variable that ranchers have no control over is the weather, which creates substantial production risk.

In Oklahoma and Texas, dry spells and prolonged drought create the greatest threat of production risk for cattle producers. During dry spells and drought, available forage becomes scarce and sometimes nonexistent. Consequently, baled hay becomes very expensive. In some cases, it becomes too expensive to purchase, forcing ranchers to reduce cattle numbers.

In response to the production risk caused by dry weather and prolonged drought, a relatively new program sponsored by the Risk Management Agency (RMA) of the United States Department of Agriculture (USDA) provides pasture, rangeland and forage insurance for pastures that are grazed or used to produce hay. The programs are based on either a vegetation index or rainfall index. This article focuses on the potential benefits and costs associated with the rainfall index, the index used by RMA for ranchers operating in Oklahoma and Texas (Figure 1).

How does the program work?

Base land production values for hay and pasture are assigned by RMA for each county in terms of dollars per acre. Producers determine the value of their hay and pasture acres compared to the county base value, choosing between 60 and 150 percent. Then producers decide what percent of normal rainfall they would like to insure. The producer can choose a percent of normal rainfall between 70 and 90. Finally, a decision needs to be made on which months to insure the property. The insurance is taken out with an approved private insurance company in two-month intervals with a minimum of two intervals for a single year.

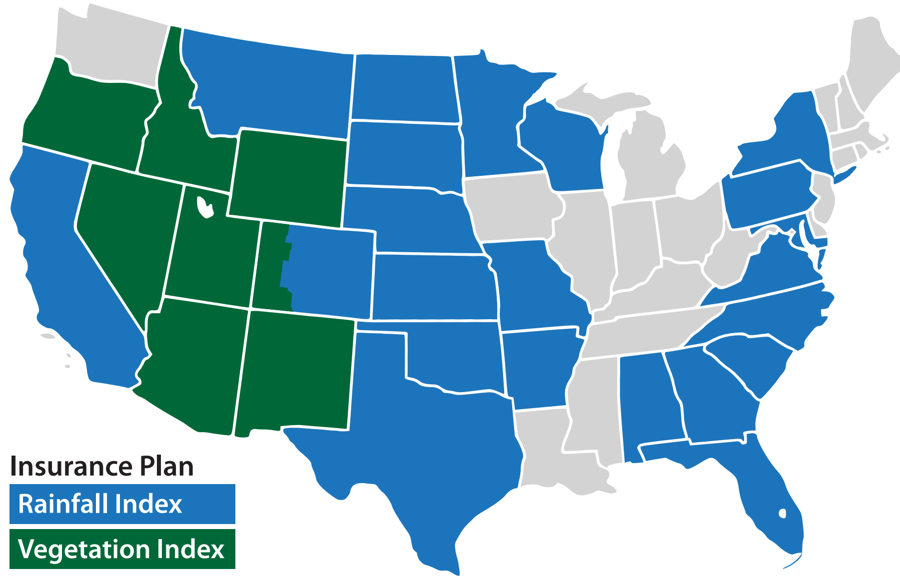
The rainfall index is based upon a rainfall grid system, with each grid being approximately 12 miles by 12 miles. Normal rainfall for each grid is based upon records that date back to 1948. For each two-month interval, if the rainfall was below the specified percent of normal, a payment is mailed automatically to the rancher within 60 days of the end of that period.

Who should use this product?

Normally, insurance products do not make financial sense long-term if a rancher can meet the cash flow needs of the enterprise in the short run. However, every producer that has land that is used for grazing or hay production should consider using this insurance product because a substantial portion of the premium is subsidized by the USDA. The subsidy ranges between 51 and 59 percent of the total premium, depending on the percent of normal rainfall chosen to insure by the rancher.

Figure 1.

2013 and Succeeding Crop Years - Pasture, Rangeland, Forage Availability



Where to get more information?

There is an Internet-based tool available that shows farmers and ranchers what the program would have paid them in previous years for different coverage levels had they participated in the program. The tool can be found at http://agforceusa.com/rma/ri/prf/ maps. The deadline for participation in this program is September of each year, so I strongly encourage anyone who is interested to give me a call at (580) 224-6443 or email me at jdspringer@noble.org to get more information about this insurance program. ■

IS IT TIME TO RE-STOCK?

Ballroom C

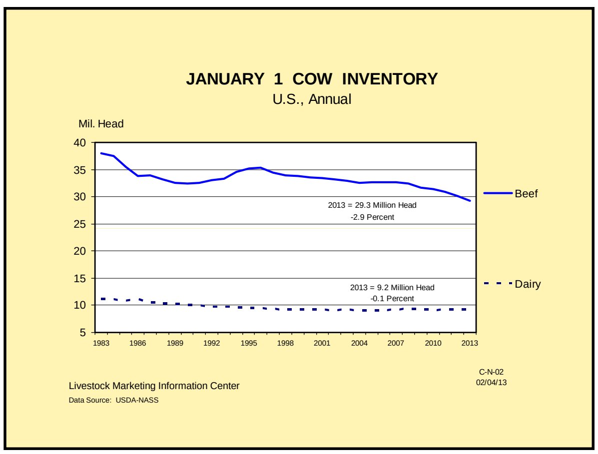
Speakers:

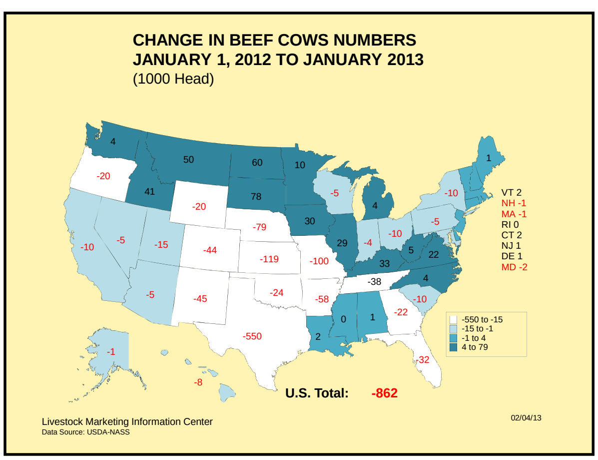
Hugh Aljoe, Chuck Coffey, and Steve Swigert
Noble Foundation

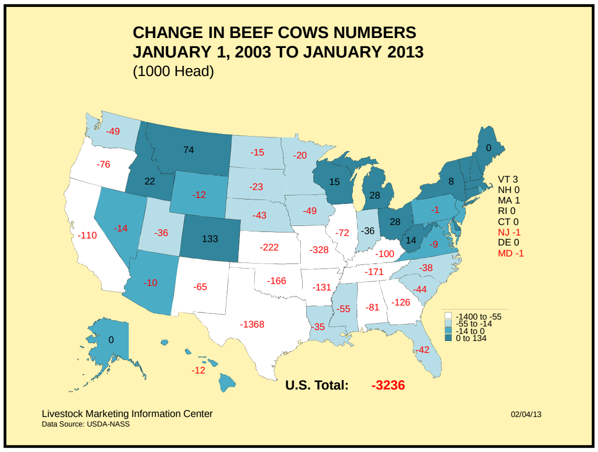
Are Your Finances Prepared?

Steve Swigert
Agricultural Economics Consultant

THE SAMUEL ROBERTS NOBLE FOUNDATION

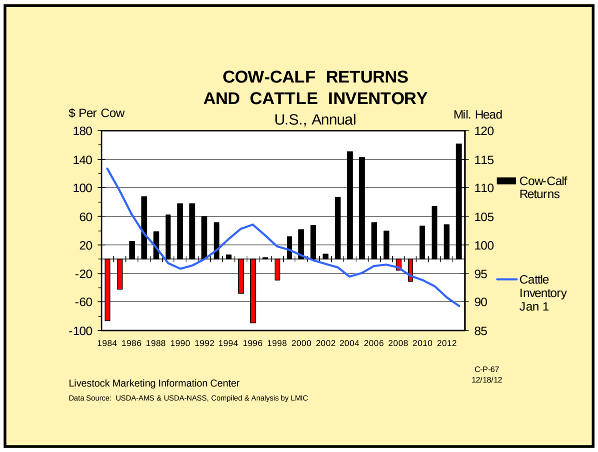


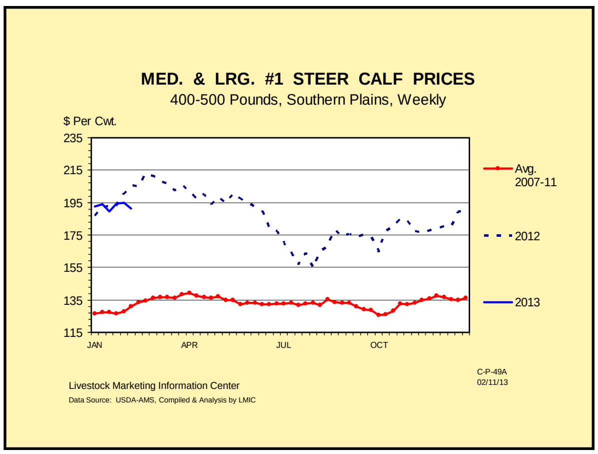




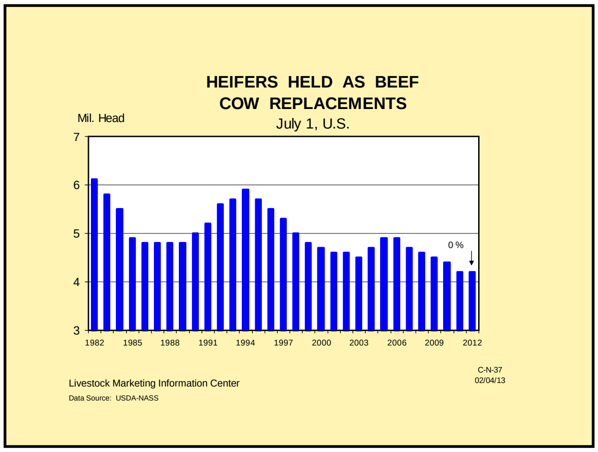
4 Questions that need to be answered

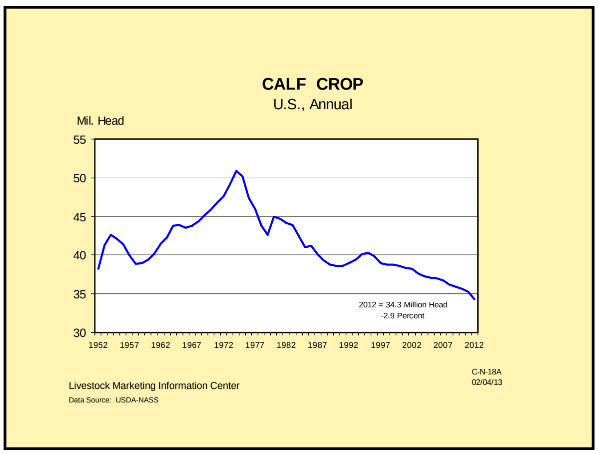
1) What are you going to buy?





2) Where are the cows or stockers going to come from?





3) How much are you going to pay?

Prices needed to return 3% on a $1,800 bred heifer

$500 Cow Cost	$145	525 lb calf
$600 Cow Cost	$163	525 lb calf

Prices needed to return 3% on a $2,000 bred heifer

$500 Cow Cost	$152	525 lb calf
$600 Cow Cost	$171	525 lb calf

Knowing Your Value of Gain For Stocker Cattle

Steer Value of Gain 2/18/12

520 lbs	$1.83/lb		$951
		$.41 VOG	
620 lbs	$1.60/lb		$992
		$.51 VOG	
728 lbs	$1.44/lb		$1048
		$.92 VOG	
825 lbs	$1.38/lb		$1138
305 lbs			$187

$.613 Total VOG

Heifer Value of Gain 2/18/12

530 lbs	$1.57/lb		$832
		$.58 VOG	
633 lbs	$1.41/lb		$892
		$1.08 VOG	
724 lbs	$1.37/lb		$991
		$.51 VOG	
808 lbs	$1.28/lb		$1034
278 lbs			$202

$.726 Total VOG

3) How much can you get financed?

Conditions-

- Interest Rates
- Term
- Collateral

Cash Flow

Equity Requirement

THE SAMUEL ROBERTS NOBLE FOUNDATION

Measuring Rainfall and Forage Production to Manage Stocking Rates

The adage "you cannot manage what you do not measure" has many applications and it applies to stocking rate, or more accurately, carrying capacity. However, in the management of beef cattle operations, carrying capacity has traditionally received little attention. There are several factors for this including the development of rapidly growing, fertilizer-efficient introduced grasses, cheap fertilizer, cheap hay, and several decades of good rainfall beginning in the early 1980's. Fertilizer and hay are now much more expensive; and many producers are no longer applying it as in the 1980s. In the last decade, rainfall has become less dependable, and during the last two years we have experienced drought conditions unmatched since the 1950s. In spite of the changing conditions, most producers were reluctant to adjust stocking rate until forced to do so because of the recent drought conditions; and even now few have begun monitoring much less managing carrying capacity. Based on long-term climate forecasts, we should expect a higher probability of drought. Now is the time to begin active management of the carrying capacity and thus your stocking rate.

The question then is "Where to begin?" A good place to start is monitoring monthly rainfall on the ranch using a "Water Year" table, comparing it to the long-term monthly average (Table 1). By comparing the actual monthly rainfall to the long-term average, a producer can determine early in the growing season (and throughout) the trending moisture conditions. The Water Year Rainfall Table for an operation allows a producer to determine the percentage above or below the long-term average that the actual precipitation is at the end of each month, and thus the difference indicating approximately how much to adjust the stocking rate during the growing season (assuming the producer is stocked for an average year).

Table 1. Water year rainfall table created in an Excel spreadsheet

Water Year Rainfall for South Central Oklahoma

	Local Long-Term Monthly Rainfall			2011-2012 Water Year Monthly Rainfall				2012-2013 Water Year Monthly Rainfall			
Month	30 year average inches	cumulative total inches	% 30 year average percent	2011-2012 inches	cumulative total inches	% 30 year average percent	variance from average	2012-2013 inches	cumulative total inches	% 30 year average percent	variance from average
October	4.12	4.12	10	2.07	2.07	5	-5	1.54	1.54	4	-7
November	2.89	7.01	18	6.74	8.81	22	5	0.54	2.08	5	-12
December	2.44	9.45	24	2.05	10.86	27	4	1.72	3.80	10	-14
January	1.84	11.29	28	4.26	15.12	38	10	1.84	5.64	14	-14
February	2.2	13.49	34	1.27	16.39	41	7	1.83	7.47	19	-15
March	3.4	16.89	43	5.79	22.18	56	13		#VALUE!	#VALUE!	#VALUE!
April	3.61	20.5	52	2.77	24.95	63	11		#VALUE!	#VALUE!	#VALUE!
May	5.47	25.97	65	2.12	27.07	68	3		#VALUE!	#VALUE!	#VALUE!
June	4.47	30.44	77	3.30	30.37	77	0		#VALUE!	#VALUE!	#VALUE!
July	2.45	32.89	83	0.7	31.07	78	-5		#VALUE!	#VALUE!	#VALUE!
August	2.52	35.41	89	2.13	33.2	84	-6		#VALUE!	#VALUE!	#VALUE!
September	4.24	39.65	100	2.27	35.47	89	-11		#VALUE!	#VALUE!	#VALUE!
	39.65			35.47							
					Updated	2/21/2013					

There are several key elements in a Water Year Rainfall Table. The "water year" begins with October and ends with September. This is consistent with the Drought Monitor indices as October marks the end of the growing season and is typically the month in which the soil profile begins to recharge. The amount of moisture that occurs between October and March is usually a good indicator of the potential of the type of spring and growing season to expect. The rest of the table is broken into 3 areas: the long-term (or 30-year in this example, which has a higher rainfall average than the 100-year) monthly rainfall averages, the previous water year monthly rainfall averages, and the current water year monthly rainfall averages. Within each of these areas, the rainfall is added cumulatively and then the variance from the long-term average is calculated. It is the variance that is of most significance especially early in the growing season as it provides a producer a numeric value of the degree to which the growing season varies from 'average' as well as a quick look at the previous year's information. Producers often measure rainfall, and the Water Year Rainfall Table is a tool in which the collected information can be used to assist in management decisions. Additionally, the Water Year Rainfall Table can be compared to the Drought Monitor information (both current conditions and the 90-day forecast) to determine how similar your operation's moisture conditions are to the regional conditions.

One issue to consider when constructing a Water Year Rainfall Table is whether to use the 30-year or the long-term (i.e., 100+ year) averages in the first area of table. If you have traditionally stocked at the carrying capacity more reflective of the past 30 years and want to compare the variance from the climate you have become accustomed to, then the 30-year information may best suit your individual needs. It will provide a more extreme variance during drought years as the annual rainfall for the past 30 years has averaged 4-5 inches greater than the 118-year annual rainfall average. If you have adjusted your stocking rate to reflect the lower carrying capacity observed the previous 2 years and you are prepared to manage relative to the long-term annual rainfall, the 118-year monthly rainfall averages will provide a more accurate variance for managing stocking rate into the future. It is often more difficult to locate the long-term rainfall information. However, a reliable source for such information is the County Soil Survey Books (especially if published prior to the 1980s). Although dated, the reported long-term monthly rainfall averages are more historically accurate than the more recent 30-year averages.

The second variable to measure is actual forage production. There are several methods to assess forage production, and depending on the type of management employed for an operation, the best method will vary. Typically, forage production estimates require some ability and experience in visual assessment which is one of the reasons it is not a regular management practice. However, usable estimates of production can be developed if you have a reasonable understanding of forage growth by forage type and expected production by soil type. Estimates of forage production need to be determined at critical dates in the operational plan. A few suggested dates for estimating forage production for the Southern Plains region are June 1, July 1, September 1, and frost when respectively about 30%, 65%, 90%, and 100% of annual perennial warm season grass production is expected to be produced. If production is behind expectations and the moisture conditions are not expected to improve, a plan needs to be developed to adjust the stocking rate by the difference between expected and actual production.

The Forage Assessment Form is the tool needed to estimate forage production. There are many different ways to construct a Forage Assessment Form. Tables 2 and 3 provide two different examples of forage production assessments for an identified critical date (i.e., June 1). In Table 2, a reserve herd day approach is used in the assessment, which is often easier if practicing managed rotational grazing, and Table 3 illustrates an assessment method using estimates of forage production by pasture. Notice that both methods compare actual forage production to the expected production at the assessment date. The critical information to begin includes: identification of critical assessment dates, an estimate of forage demand at critical date assessment and anticipated for the year, an estimate of the total amount of production anticipated for the grazing period (normally a year for cow-calf operations), and an estimate of the amount of forage produced (on-hand, grazed and hayed) at the time of assessment. All forms will include pasture inventory information such as pasture ID, forage type, and estimated production. Notice that both tables include livestock inventory information used to determine livestock demand for the year and up to the date of assessment. For these examples, we make the assumption that the grazing season begins April 1st as the predominant forages are warm season perennial grasses.

Tables 2 and 3 contain charts with the livestock demand information, grazing and hay reserve herd days, and the forage production summary and critical date production values. The livestock demand is listed in pounds of dry matter and based on a daily demand of 26 pounds per 1000-pound animal equivalent. The “Grazing Demand to Date” chart indicates 2 months grazed accounting for the grazing for the months of April and May.

Table 2. Example of a Critical Date Forage Assessment Form using the reserve herd day approach (in an Excel spreadsheet).

Forage assessment form using reserve herd days (RHDs)

Assessment Date **1-Jun-13**

ANNUAL ESTIMATE of LIVESTOCK DEMAND

			Annual Livestock Demand			
Cattle	Qty	Weight	per Day	Days/Year		per Year
Cows	84	1200	2,621	365		956,592
2-year old cows	12	1000	312	365		113,880
Yearling heifers	15	800	312	365		113,880
Bulls	5	1600	208	365		75,920
Weaned steers	45	600	702	90		63,180
Weaned heifers	45	600	702	90		63,180
			4,857			**1,386,632**

GRAZING DEMAND to DATE

Grazing Demand			Livestock Demand		Months	Total Grazing
Cattle	Qty	Weight	per Day	per Month	Grazed	Demand
Cows	84	1200	2,621	78,624	2	157,248
2-year old cows	12	1100	343	10,296	2	20,592
Yearling heifers	15	900	351	10,530	2	21,060
Bulls	5	1600	208	6,240	2	12,480
Weaned steers	n/a					-
Weaned heifers	n/a					-
			3,523	**105,690**		**211,380**

FORAGE INVENTORY TO DATE (GRAZED + RHDs)

Grazing RHDs					**Estimate**
		Total	Reserve		**Forage**
Pasture	Forage	Acres	Days	Cattle	**Reserve**
1,4,5,8	Bg	80	21	Cows	55,037
2, 6	Bahia	40	20	2-yr	6,864
3	Bg	20	30	Yrlg hfr	10,530
7	Bg	20	7	Cows	18,346
9	Bahia	20	2	Cows	5,242
10	annuals	20	21	Bulls	4,368
				LBS forage grazing	**100,386**
				Reserve grazing days	**28**
				Reserve grazing months	**0.9**

Hay	(acres)	(qty/ac)	Bales	Weight	**Reserve**
Hayfield	25	1	25	1200	30,000
Ryegrass hay			58	1000	58,000
				LBS hay	**88,000**
				Reserve hay days	**25**
				Reserve hay months	**0.8**

Forage Production to Date

Graze+RHD's	% Annual
Grazed	211,380
RHDs	100,386
Hay	88,000
Total	399,766
% of Annual =	**29**

Critical Dates & Expected Production

Date	% Annual	Total lbs
1-Jun	30	415,990
1-Jul	65	901,311
1-Aug	90	1,247,969
1-Nov	100	1,386,632

In Table 2, the forage inventory is represented in terms of reserve herd days (RHDs), which are then converted to pounds of dry matter production. RHDs represent the estimated number of days that the herd can graze in the listed pastures if all plant growth ceased immediately. This value is multiplied by the daily demand for the respective class(es) of cattle using the pastures. Hay that has been produced during the growing season is accounted for as well. In the “Forage Production to Date” chart, the production is totaled for Grazing Demand, Grazing RHDs, and Hay, and then divided by the Annual Estimate of Livestock Demand to determine the Percent of Annual Production; the 29% value in the “Forage Production to Date” chart. The “Critical Dates & Expected Production” chart lists the critical dates, percent of annual production expected by that date and the pounds of production that represents based on annual livestock demand. On June 1 in this example, the assessment indicates that forage production for the operation (29%) is tracking close to the expected production (30%) at the critical assessment date. If the assessment indicated greater than 5% deficiency, the Water Year Rainfall chart indicates below average precipitation, and the Drought Monitor does not provide a favorable forecast, a producer should be contemplating drought management strategies. Keep in mind in this example, the expected production is based on the existing herd and not estimated forage production. This method works better if conservatively stocked than if stocked more aggressively.

The Critical Date Forage Assessment Form in Table 3 uses forage production estimates by pasture to create a forage inventory at date of assessment and for the year. The “Forage Inventory” chart is listed by pasture and includes the grazing acres and the estimated pounds of dry matter present and expected for the given year. The disadvantage of this method is it requires some experience in estimating forage production. In this example, it is necessary to assign a harvest efficiency value to the total dry matter production as livestock can only harvest 25% to 75% of the available forage. In this example with introduced pasture and rotational grazing, a harvest efficiency value of 65% is applied to total production. A harvest efficiency of 25% is typically used for native grass pastures. Although not necessary for the assessment, the process of determining the total grazed forage for the year provides a good check against annual livestock demand to be certain that livestock demand does not exceed expected forage production.

Table 3. A critical date forage assessment example using forage production estimates by pasture (in an Excel spreadsheet).

Forage assessment form using pasture production estimates

Assessment Date 1-Jun-13

ANNUAL ESTIMATE of LIVESTOCK DEMAND

			Annual Livestock Demand			
Cattle	Qty	Weight	per Day	Days/Year		per Year
Cows	84	1200	2,621	365		956,592
2-year old cows	12	1000	312	365		113,880
Yearling heifers	15	800	312	365		113,880
Bulls	5	1600	208	365		75,920
Weaned steers	45	600	702	90		63,180
Weaned heifers	45	600	702	90		63,180
			4,857			**1,386,632**

FORAGE INVENTORY TO DATE and ANNUAL

	Grazing	Production to date			Annual production		
Pasture	Acres	Est. lbs/ac	Total/pasture	Est. available	Est. lb/ac	Total/pasture	Est. available
1	45	1200	54,000	35,100	4500	202,500	131,625
2	85	450	38,250	24,863	2700	229,500	149,175
3	75	550	41,250	26,813	3000	225,000	146,250
4	80	600	48,000	31,200	3000	240,000	156,000
5	85	650	55,250	35,913	2800	238,000	154,700
6	60	700	42,000	27,300	3300	198,000	128,700
7	90	750	67,500	43,875	2500	225,000	146,250
8	65	550	35,750	23,238	3500	227,500	147,875
9	80	400	32,000	20,800	2700	216,000	140,400
10	80	400	32,000	20,800	2500	200,000	130,000
	Inventory forage		446,000	**289,900**		2,201,500	**1,430,975**

GRAZING DEMAND to DATE

Grazing Demand			Livestock Demand		Months	Total Grazing
Cattle	Qty	Weight	per Day	per Month	Grazed	Demand
Cows	84	1200	2,621	78,624	2	157,248
2-year old cows	12	1100	343	10,296	2	20,592
Yearling heifers	15	900	351	10,530	2	21,060
Bulls	5	1600	208	6,240	2	12,480
Weaned steers						-
Weaned heifers						-
			3,523	**105,690**		**211,380**

Grazed forage	211,380
Inventory forage	289,900
Total grazed + inventory	**501,280**

Percent of Annual Production	**35%**

Critical Dates & Expected Production		
Date	% Annual	Total lbs
1-Jun	30	660,450
1-Jul	65	1,430,975
1-Aug	90	1,981,350
1-Nov	100	2,201,500

The “Percent Annual Production” chart is a total of grazed and inventoried forage divided by the estimated total forage available for grazing. It is paired for quick reference with the “Critical Dates & Expected Production” chart comparing actual production with expected. In this example, the percent of annual production at the June 1 assessment date is 35%, slightly ahead of the 30% of expected production for that date. Again, when used with a Water Year Rainfall Table for the operation, and with close observance of the Drought Monitor current conditions and 90-day forecast, a producer can better manage and plan for the remainder of the growing season.

These are just two of many examples of how to create Forage Assessment Forms. Each form should be developed to fit an individual operation. Forage assessments performed routinely at critical dates aid in decision making when issues (or opportunities) are identified early in the planning horizon. Forage Assessment Forms and Water Year Rainfall Tables are two simple tools that allow the progressive producer to proactively monitor the carrying capacity of pastures and manage stocking rate.

Adequate rainfall covers up a lot of poor management practices allowing producers to ignore the management of stocking rate. It often takes extreme circumstances like extended drought before stocking rates are adjusted, but then unfortunately it is usually after the land (forage) resource has been misused to the point that it will take multiple years to recover – *if recovery is even possible*. However, astute managers can distinguish themselves during periods of extended drought by ***managing stocking rates to match carrying capacity*** – using tools to monitor forage production and rainfall. The key to sustaining forage resources for long-term optimization of carrying capacity (regardless of rainfall) is active management of stocking rates.

THE SAMUEL ROBERTS NOBLE FOUNDATION

AG News and Views

Originally published February 2013

FORAGE

"New normal" rainfall expectations endanger production

by Chuck Coffey / crcoffey@noble.org

The "new normal" can be defined as the period of time from 1981-2010, a span of 30 years, when Oklahoma rainfall was significantly more abundant than it had been in the previous 87 years. Figure 1 depicts yearly rainfall from 1895-2011 for Oklahoma. It also shows us the trends in weather patterns by depicting a five-year rolling average.

Until 1980, wet and dry periods trended in seven- to 10-year cycles with somewhat regular frequency. However, from 1980-2010, the trend remained wet – so much so that if we calculate the average annual rainfall for this period we were 3 inches above our 117-year average of 34 inches. Folks, that is impressive, and I'm not even a climatologist. I first observed this phenomenon occurring back in the 1990s and began writing articles about drought. Just looking at this chart caused me to begin telling people that drought is normal and should be expected 25 percent of the time. What we were experiencing was not "normal" and to prepare to pay the fiddler.

From a livestock grazing perspective, drought can be defined as "slow

Figure 1. 1981 to 2010 – The "New Normal?" – 30 Years

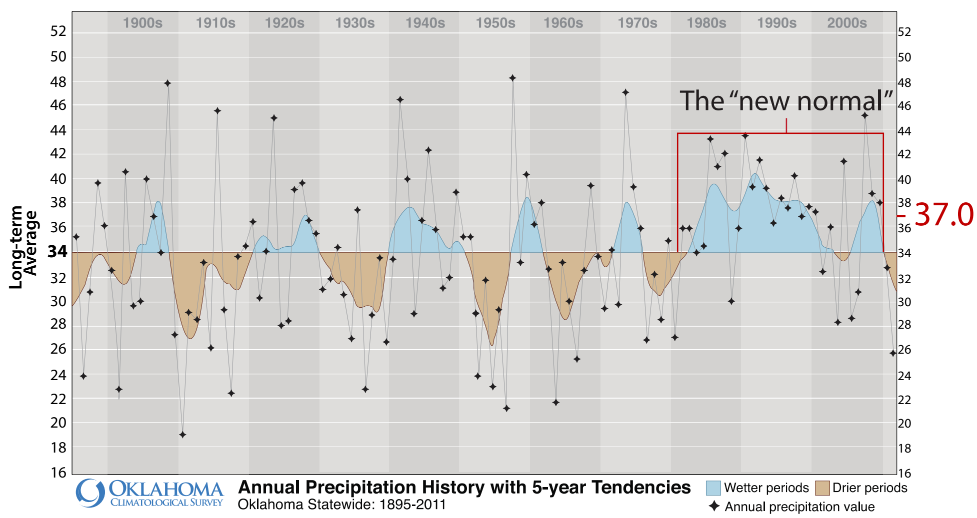
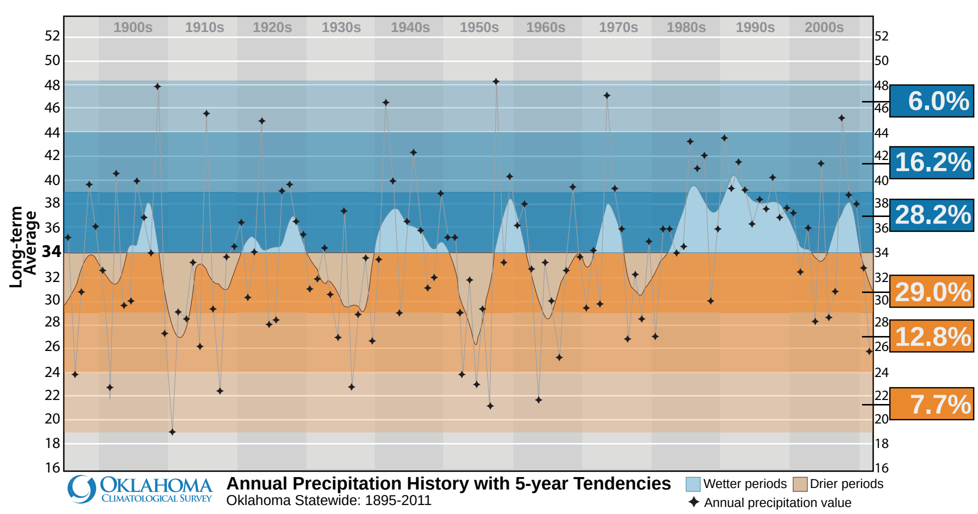


Figure 2. Probability of Rainfall Deviation



plant growth when you expect fast growth" or "no growth when you expect slow growth." If we simply define drought as receiving less than 29 inches of rainfall (greater than 5 inches below average) for Oklahoma, then drought has occurred some 20 percent of the time since 1895 (Figure 2). By this definition, I believe we will see the frequency of drought increase over the coming 20 to 30 years.

It is also worth noting that severe drought in Oklahoma – less than 24 inches of annual rainfall or more than 10 inches below average – has occurred 7.7 percent of the time since 1895. We have not seen this happen since 1963. The drought of 2011 came close with just over 25 inches. What made the drought in 2011 so severe is that it began in the fall of 2010 with a dry winter and continued to stay dry through the spring and summer. We started off on the right foot in 2012, but the rains quit when we needed them the most, in May and June.

Simply put, you better quit thinking animal numbers can rival the capacity of the "new normal" time-frame and adjust your stocking rate to match the long-term average of the last 117 years. In the near term, most of us should consider reducing stocking rates even further due to the severity of stress caused by the drought of 2011 to 2012. The "new normal" was not normal; it was a welcome anomaly and may not occur again in our lifetimes. ■

CATTLE RAISERS
CONVENTION

TEXAS AND SOUTHWESTERN CATTLE RAISERS ASSOCIATION

TAX IMPLICATIONS OF A PROLONGED DROUGHT AND THE FISCAL CLIFF DEAL

Ballroom C

Speaker:

Mike Dunlap, CPA

The Fiscal Cliff in Plain English

A look at the problem and how the solution will affect YOU!

The Fiscal Cliff in Plain English

The Fiscal Cliff in Plain English

- What exactly is the "fiscal cliff"?
  - The "fiscal cliff" refers to a number of tax hikes and spending cuts that were scheduled go into effect on January 1, 2013.
  - These changes are all attributable to provisions enacted from previously passed legislation.
  - Example – expiring Bush era tax cuts passed in 2001 and 2003 (lower tax rates, capital gains, etc)

The Fiscal Cliff in Plain English

- The Big Three

  Congress has to deal with:

  - Taxes – expiring tax cuts and lower tax rates
  - Spending – budget deficit keeps growing
  - Debt Ceiling – raising the limit to borrow so the government can pay its bills

The Fiscal Cliff in Plain English

- A look at the numbers:

- U.S. Tax Revenue – $2,170,000,000,000
- Federal Budget – $3,820,000,000,000
- New Debt – $1,650,000,000,000
- National Debt – $14,271,000,000,000
- Recent Budget Cuts – $38,500,000,000

The Fiscal Cliff in Plain English

- Remove 8 zeros and pretend it's a household budget:

- Annual Family Income – $21,700
- Money the Family Spent – $38,200
- New Debt on the Credit Card – $16,500
- Balance on the Credit Card – $142,710
- Total Budget Cuts so far – $38.50

- ***How long could you live on this budget?***

The Fiscal Cliff in Plain English

"Hey, we're government accountants.
These numbers aren't supposed to add up."

The Fiscal Cliff in Plain English

- What did this mean for the average taxpayer?
  - 90% of American households will owe more in taxes
  - Social Security tax increases from 4.2% to 6.2% making everyone's paycheck 2% less
  - Employers will tighten their belts and be less likely to hire. Estimated 3.4 million jobs will be lost
  - College education tax credits expire
  - Medicare will lose $11 billion in funding and will pay doctors less, resulting in fewer accepting Medicare

The Fiscal Cliff in Plain English

- What did this mean for the wealthy taxpayer?
  - Top marginal tax rate increases from 35% to 39.6%
  - Capital Gains tax will increase from 15% to 20%
  - Estate and Gift Tax will have sweeping changes taxing estates over $1,000,000 at 55%

The Fiscal Cliff in Plain English

- The Solution
  - The American Taxpayer Relief Act of 2012
    - Signed into law by President Obama on January 2, 2013
    - Eliminated much of the tax side of the fiscal cliff
    - Made many provisions permanent in the tax code
    - Reduction in spending due to budget sequestration is was delayed two months – set to happen March 1st
    - Debt ceiling was not changed – must be dealt with

The Fiscal Cliff in Plain English

- The American Taxpayer Relief Act of 2012
- <u>Individual Tax Provisions:</u>
  - 1. Made permanent the lower Bush era income tax rates for all taxpayers except those with taxable income over $400,000 (single) and $450,000 (married), and $425,000 (head of household).
    - Income above these levels will be taxed at 39.6%
    - Rates are 10%, 15%, 25%, 28%, 33%, 35% and 39.6%
    - All of the tax brackets will be indexed for inflation

    2. Capital Gains and Dividends will now be taxed at 20% rather than 15% for taxpayers with incomes above the thresholds set for the 39.6% rate. (See above). The 0% and 15% rates are made permanent.

The Fiscal Cliff in Plain English

- 3. Permanent AMT Relief – the exemption for the alternative minimum tax is permanently indexed for inflation. For 2012, the exemption amounts are $78,750 for married filing jointly and $50,600 for single filers.
  - Why is this a BIG deal?
    - Without the AMT "patch", it is estimated that 32 million Americans would be subject to AMT in 2012. With the new law, approximately 4 million taxpayers will have to pay AMT.

The Fiscal Cliff in Plain English

- 4. Phase-out of Itemized Deductions
  - Under prior law, when your Adjusted Gross Income increased beyond a certain threshold amount, certain itemized deductions were reduced by 3% but not more than 80%.
  - The limitation did not apply in 2010, 2011 or 2012
  - Under new law the limitation has been restored but the thresholds have been increased.
  - $300,000 for MFJ; $275,000 for HOH; $250,000 for singles; $150,000 for MFS

The Fiscal Cliff in Plain English

- 5. Phase-out of Personal and Dependency Exemption
  - Under prior law, personal and dependency exemptions were reduced by 2% for each $2,500 or portion thereof that AGI exceeded the threshold amount.
  - The limitation did not apply in 2010, 2011 or 2012
  - Under new law the limitation has been restored but the thresholds have been increased.
  - $300,000 for MFJ; $275,000 for HOH; $250,000 for singles; $150,000 for MFS

The Fiscal Cliff in Plain English

- 6. Individual Tax Extenders
  - These tax extenders expired at the end of 2011 and have been retroactively reinstated for two years (2012 and 2013).
    - Deduction for state and local sales taxes
    - Deduction for mortgage insurance premiums
    - Deduction for classroom teachers out of pocket expense
    - Deduction for qualified tuition expenses
    - Deduction for student loan interest made permanent
    - Tax free IRA distributions for charitable purposes

The Fiscal Cliff in Plain English

- These tax extenders expired at the end of 2012:
  - Child Tax Credit
    - The $1,000 per qualifying child is made permanent
    - The increased refundability of the credit is extended for five years 2013-2017
  - American Opportunity Tax Credit is extended five years 2013-2017
  - Exclusion for debt discharge income from home mortgage forgiveness is extended one year to the end of 2013

The Fiscal Cliff in Plain English

- 7. Business Tax Extenders
  - These business tax extenders expired at the end of 2011 and have been retroactively reinstated for two years (2012 and 2013).
    - Research and Development Tax Credit
    - Work Opportunity Tax Credit
    - 15 year straight line depreciation for qualified leasehold improvements, qualified restaurant property and qualified retail improvements
    - S-Corp built in gains five year recognition period

The Fiscal Cliff in Plain English

- These tax extenders expired at the end of 2012:
  - 50 percent Bonus Depreciation extended one year 2013
  - Enhanced Section 179 Expensing
    - Retroactively increased to $500,000 for 2012 and 2013
    - Up to $250,000 of the $500,000 may consist of qualified real property

The Fiscal Cliff in Plain English

- 8. Estate and Gift Tax
  - The real surprise in the tax legislation was in this area.
    - Tax rates and exemptions are made permanent
    - $5,000,000 exemption and is indexed for inflation
    - Maximum rate is 40%

The Fiscal Cliff in Plain English

- New Taxes Effective January 1, 2013
  - The Health Care and Education Reconciliation Act of 2010 along with the Patient Protection and Affordable Care Act – both signed into law in March 2010
    - Individual provisions effective January 1, 2013
      - 1. Additional Hospital Insurance Tax on "high income taxpayers"
      - 2. Unearned income Medicare contribution tax

The Fiscal Cliff in Plain English

Additional Hospital Insurance Tax

Prior Law – H & W filing a joint return paid into the Social Security system and paid a Medicare tax of 1.45% based upon their own wages and SE income.

New Law – the employee portion is increased by an additional .9% on wages received in excess of a threshold amount.

Unlike the general 1.45% Medicare tax on wages, this additional tax in on the combined wages of the employee and spouse in the case of a joint return.

The threshold amount is $250,000 for MFJ; $125,000 for MFS and $200,000 for any other filing status.

The Fiscal Cliff in Plain English

- The new Hospital Insurance tax will be calculated and paid on the taxpayer's income tax return.
- Employers are required to withhold the additional .9% from an employee's wages if they are in excess of $200,000.
- The IRS will assess penalties against the employer for failure to withhold.

The Fiscal Cliff In Plain English

- Unearned Income Medicare Contribution Tax
  - Prior Law – Social Security and Medicare benefits were financed through payroll taxes.
  - New Law – An individual, estate or trust must pay a 3.8% Medicare contribution tax on the lesser of "net investment income" or the excess of modified adjusted gross income over a threshold amount.
  - The thresholds are $250,000 MFJ; $125,000 MFS and $200,000 for all other.
  - The thresholds are not indexed for inflation so over time more taxpayers will become subject to the tax.

The Fiscal Cliff in Plain English

- Investment Income includes:
  - Interest
  - Dividends
  - Capital Gains
  - Annuities
  - Royalties
  - Rents
  - Income from any activity that is passive to the taxpayer

Tax Implications of a Prolonged Drought

Tax Implications of a Prolonged Drought

The Fiscal Cliff in Plain English

- Questions

- Michael Dunlap, CPA
  - Dunlap & Company
    - 817-517-1111

AGRICULTURAL TRANSACTIONS: HOW TO PROTECT YOURSELF

Room 201ABC

Speaker:

Chad Lee, Law Office of Chad Lee

TSCRA Ranching 101

Agricultural Transactions:

How to Protect Yourself

TOPICS

- What is a contract?
- How to protect yourself when buying or selling.
- Avoiding litigation and disputes.

CONTRACT

- Offer – someone wants to buy/sell
- Subject Matter – hay, livestock, real estate
- Consideration – cost of the subject matter
- Acceptance
- Capacity

EXAMPLE

"I, Chad Lee, agree to sell my ranch in DeLeon, Texas to John Doe for $500."

- Binding contract? Maybe, but probably not.
- Leaves too much left to guesswork

ORAL CONTRACTS

- Enforceable? – under certain circumstances
- Terms – who decides?
- Statute of Frauds
- Should you use them?
  - depends on the situation and the lessee/lessor

BASIC RULE OF ORAL CONTRACTS

- Valid IF:
  - performed in less than one year
  - goods sold are worth less than $500

TEXAS STATUTE OF FRAUDS

- Chapter 26, Business and Commerce Code:
- Sec. 26.01. PROMISE OR AGREEMENT MUST BE IN WRITING. (a) A promise or agreement described in Subsection (b) of this section is not enforceable unless the promise or agreement, or a memorandum of it, is
- (1) in writing; and
- (2) signed by the person to be charged with the promise or agreement or by someone lawfully authorized to sign for him.

(b) Subsection (a) of this section applies to:

- (1) a promise by an executor or administrator to answer out of his own estate for any debt or damage due from his testator or intestate;
- (2) a promise by one person to answer for the debt, default, or miscarriage of another person;
- (3) an agreement made on consideration of marriage or on consideration of nonmarital conjugal cohabitation;
- (4) a contract for the sale of real estate;
- (5) a lease of real estate for a term longer than one year;
- (6) an agreement which is not to be performed within one year from the date of making the agreement;
- (7) a promise or agreement to pay a commission for the sale or purchase of:
    - (A) an oil or gas mining lease;
    - (B) an oil or gas royalty;
    - (C) minerals; or
    - (D) a mineral interest;

EXAMPLES

- A verbal agreement to lease land that begins on January 1 and ends on December 31.
- A verbal agreement to gather and ship cattle in the spring of a certain year
- A verbal agreement for a season long hunting lease

RULES FOR WRITTEN CONTRACTS

- Who are the buyer and the seller?
- What are you selling?
- What is the price?
- When does the buyer/seller have to perform?

EXAMPLES

2-22-13

4 skinny, brown cows	-	4800
2 black cows	-	2400
3 black baldy calves	-	2100
		$9300

3-21-13

6 black cows	-	7200
5 skinny brown cows	-	6000
4 calves	-	2100
		$15,300

Signed,

John Doe Joe Smith

GOLDEN RULE!

"Good contracts make for better friends."

<u>LITIGATION AND DISPUTES</u>:

HOW TO AVOID THEM

THIS CONTRACT made this _______ day of ________________, 20____, by and between
_______________________________ of ____________________________,
hereinafter referred to as SELLER, and ___________________________________, of ___________________________,
hereinafter referred to as BUYER, covers the sale of the following described cattle, for the consideration of a down payment in the sum of $________________, the receipt of which is hereby acknowledged by SELLER; balance of purchase price to be paid upon delivery of the cattle and completion of this contract.

NUMBER AND DESCRIPTION OF CATTLE TO BE SOLD:
____
____

These cattle are now located _________________________________ and will remain at this location unless otherwise stipulated in the REMARKS. Delivery of the cattle to be made on the following date(s): ____.

SALE PRICE: ____
SLIDE: ____
SHRINK: ____
WEIGHING LOCATION AND CONDITIONS: ________________________________
____
____

All cattle are to be sound and in merchantable condition, and free of any contagious disease. Cattle that are blind, crippled, locoed, lump-jawed, or otherwise deformed and unmerchantable may be rejected by BUYER.

Upon delivery of the cattle and completion of this contract, BUYER will make final payment to SELLER in the form of ____.

All cattle are to be delivered with a clear title, or if encumbered, with payment made jointly to SELLER and the lien holder, _______________________________________.

REMARKS and/or SPECIAL CONDITIONS: _________________________________
____
____

____
SELLER

____
BUYER

Standard Hay Contract

Buyer	**Seller**
Name	Name
Address	Address
City/State	City/State
Phone	Phone

TERMS:
Total Bales: _____ Approximate Tons: _____
Price per ton: _____ FOB ____ Delivered ____
Cutting__________ Test results: Protein ______ ADF ______ TDN ______
WEIGHTS: Hay shall be weighed at ______________________________
PAYMENT: Cash___ Check____ Other____
Due on or before:__________________
INSURANCE: Carried by: Buyer____ Seller____ None____
STACK COVER:
____Buyer agrees to accept hay as is.
____Buyer_____ Seller agrees to cover stacks with:
____straw _____tarps____ other
Buyer agrees to have all hay removed by :_____________
REMARKS:____

Any venue shall be in the County of the Hay Products origin. This is the complete agreement between the Buyer and Seller and any changes must be in writing and signed by both parties.

SIGNED:
Buyer: ______________________ Date:________________
Seller: ______________________ Date:________________

RESOURCES USED

- www.statutes.legis.state.tx.us/
- www.idahohay.com
- www.cattlerange.com

DISCLAIMER

- Any information provided in this presentation is not intended to be legal advice, nor is it intended to be a substitute for legal services from a competent professional.

CONTACT INFORMATION

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PNEUMONIA CAN DROWN A CALF.
PYRAMID® 5 + PRESPONSE® SQ HELPS YOU BOTH BREATHE EASY.

EFFECTS OF THE CORN MARKET ON THE CATTLE INDUSTRY

Room 201ABC

Speaker:

Dr. Mark Welch, Texas A&M AgriLife Extension Service

2013

Grain Markets and the Cattle Industry

Mark Welch
Extension Economist—
Grain Marketing

JMWelch@tamu.edu
(979)845-8011

Marketing

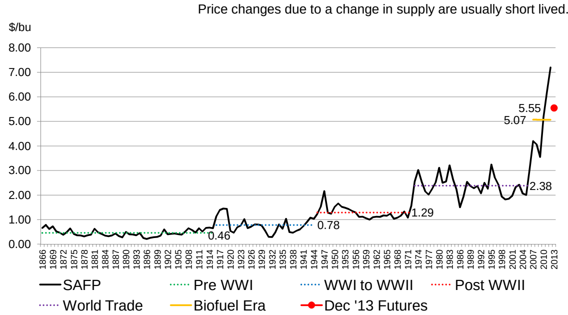
Doing Nothing is a price strategy

- If you do no pre-harvest pricing you are a speculator in the cash market
- You accept all the price risk between now and whenever you decide to sell

Separate what you think from what you want.

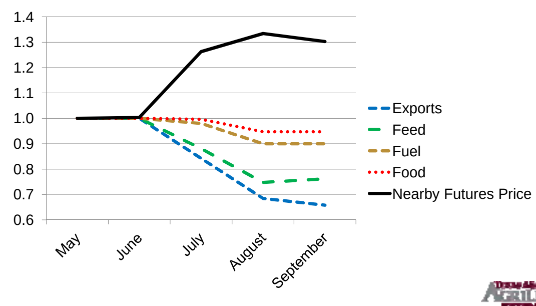
Marketing Year Average Corn Prices

Price changes due to a change in supply are usually short lived.



Price changes due to a change in demand are usually sustained for longer periods of time.

Index of changes in the Corn Price and Major Use Categories from May to September

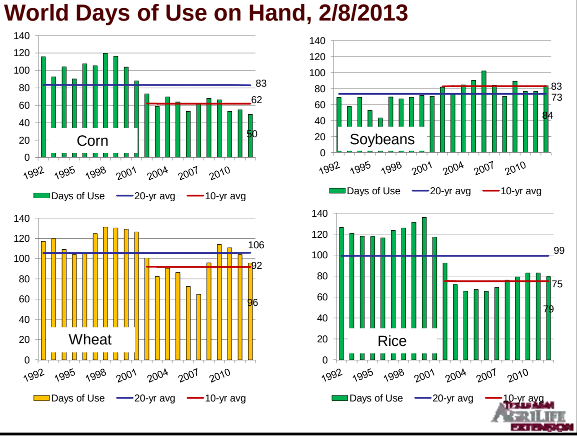


The impact of high prices…

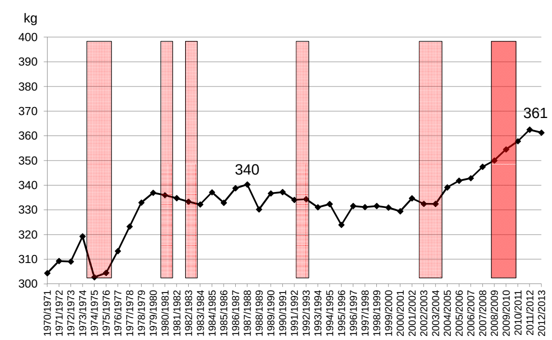
The current high prices have one certain result—more corn acres. To the extent that farmers in Brazil, Argentina, and everywhere else, see these high prices they are going to increase their production.

--Dr. Daryll E. Ray, University of Tennessee

World Days of Use on Hand, 2/8/2013



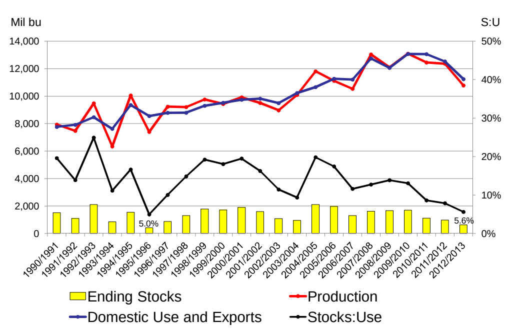
World Per Capita Grain Use



barley, corn, millet, mixed grains, oats, rice , rye, sorghum, soybeans, and wheat

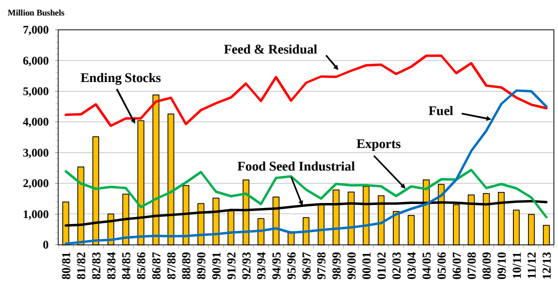
PSD, 2/8/2013

U.S. Corn Supply and Demand, 2/8/2013



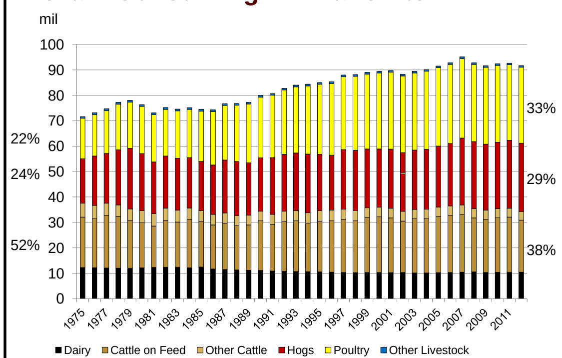
Source: USDA *World Agricultural Supply and Demand Estimates*

U.S. Corn: Disappearance, 2/8/2013



Source: USDA WASDE

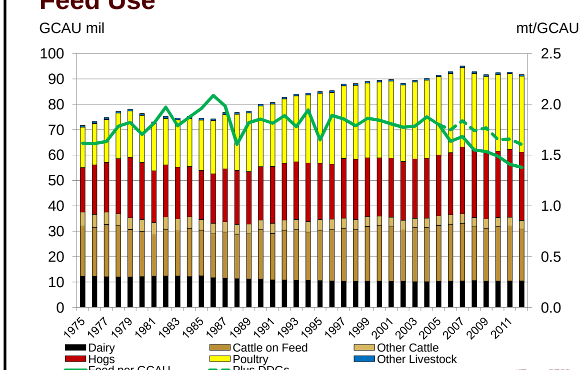
Grain Consuming Animal Units



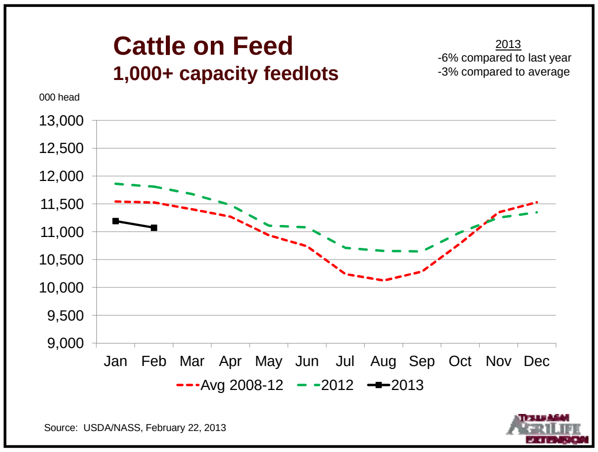
USDA Feed Grain Database, February 22, 2013

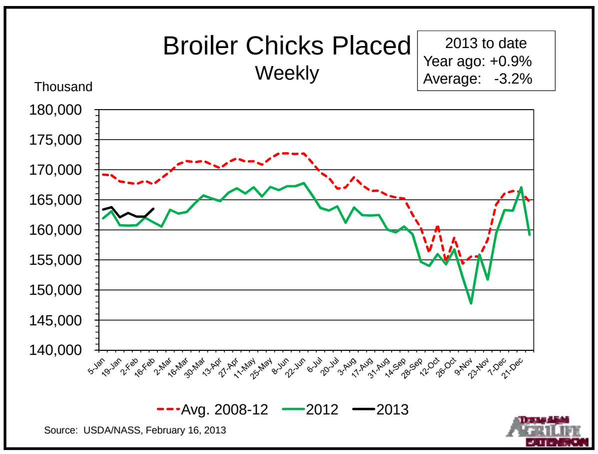
Feed Use

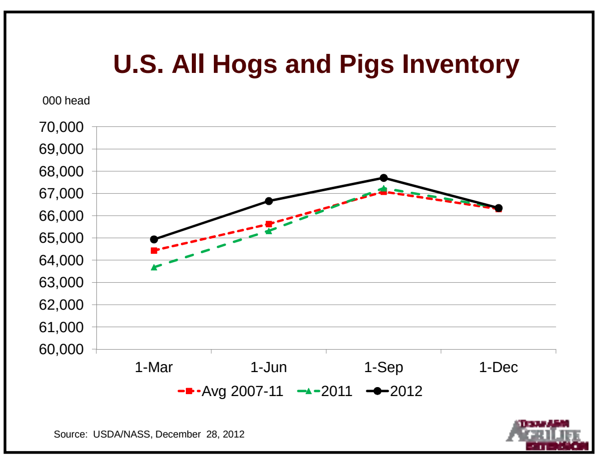
Since 2007
GCAUs have gone from 95.1 million to 91.7 million (-4%);
energy feed per GCAU has gone from 1.84 mt to 1.60 mt (-13%)



USDA Feed Grain Database and Agricultural Marketing Resource Center, February 22, 2013

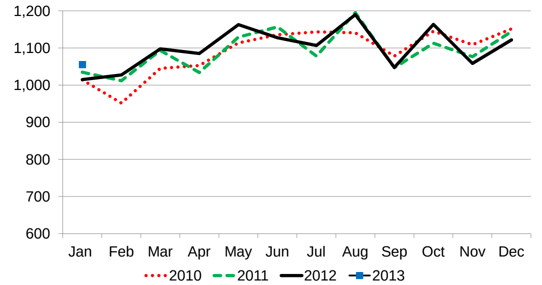

Cattle on Feed
1,000+ capacity feedlots
2013
-6% compared to last year
-3% compared to average
000 head
Avg 2008-12
2012
2013
Source: USDA/NASS, February 22, 2013


Broiler Chicks Placed
Weekly
2013 to date
Year ago: +0.9%
Average: -3.2%
Thousand
Avg. 2008-12
2012
2013
Source: USDA/NASS, February 16, 2013


U.S. All Hogs and Pigs Inventory
000 head
Avg 2007-11
2011
2012
Source: USDA/NASS, December 28, 2012

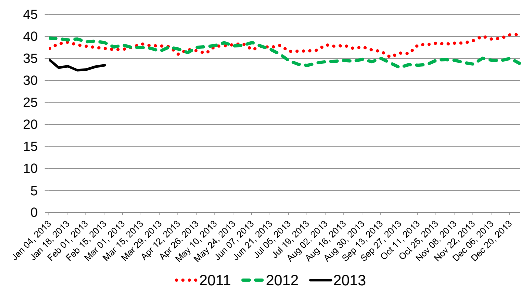
U.S. Ethanol Consumption

2010: 13.083 bil gal
2011: 13.114 bil gal
2012: 13.204 bil gal



EIA, Short Term Energy Outlook, February, 2013
http://www.eia.gov/

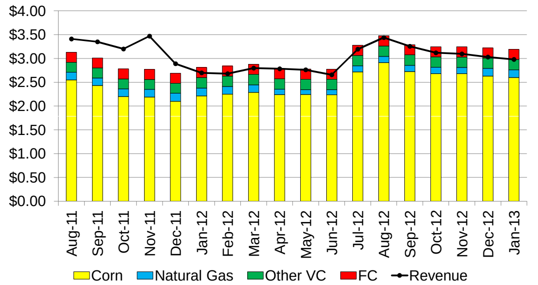
U.S. Ethanol Production



Energy Information Agency, Weekly Petroleum Status Report, February 15, 2013

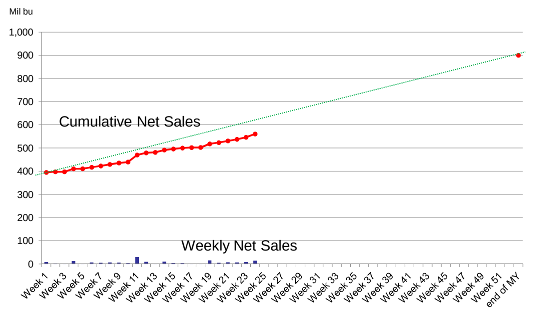
Ethanol Profitability per gallon

Agricultural Marketing Research Center, Iowa State University
http://www.agmrc.org/renewable_energy/



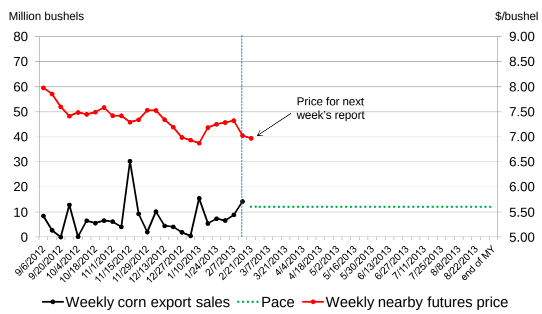
January 2013 prices:
corn $7.27/bu, natural gas $5.41/1000 ft^3, ddgs $258/ton, ethanol $2.20/gallon

U.S. Corn Export Sales Commitments, 2012/2013 MY



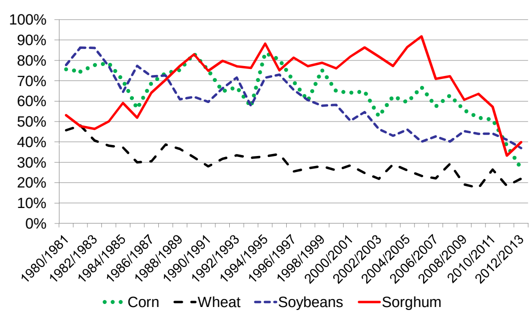
Sales as of February 14, 2013

Weekly Corn Export Sales and Weekly Nearby Futures Prices, 2012/2013 Marketing Year

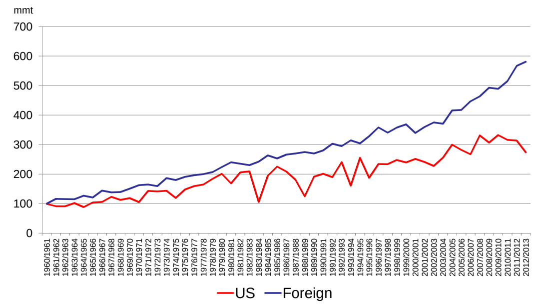


Export sales for the week of 2/14/2013: 14.2 million bushels
Average weekly export sales this marketing year: 7.3 million
Weekly sales needed to reach marketing year projection of 900 million bushels: 12.1 mil

U.S. Export Share

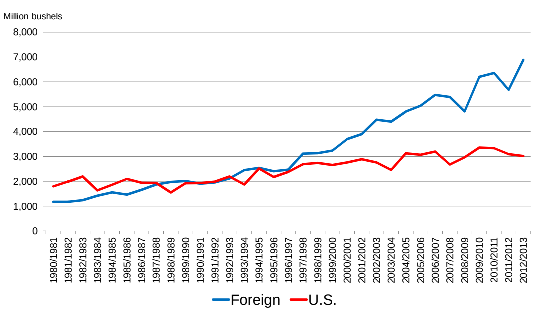


Corn Production



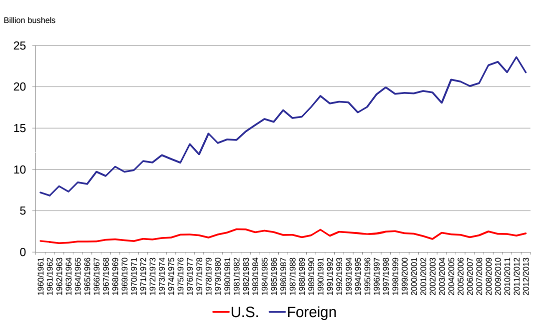
WASDE 2/8/2013

Soybean Production

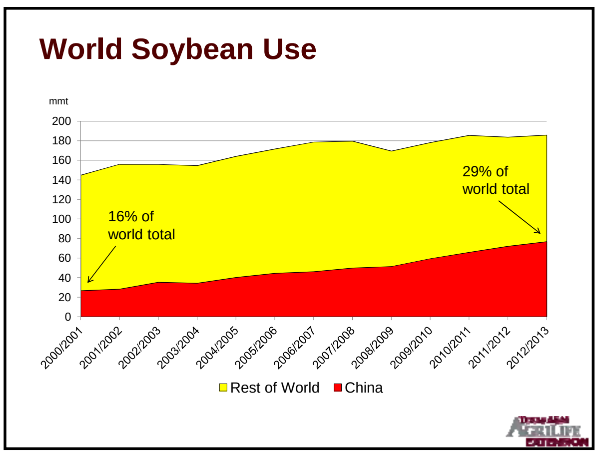


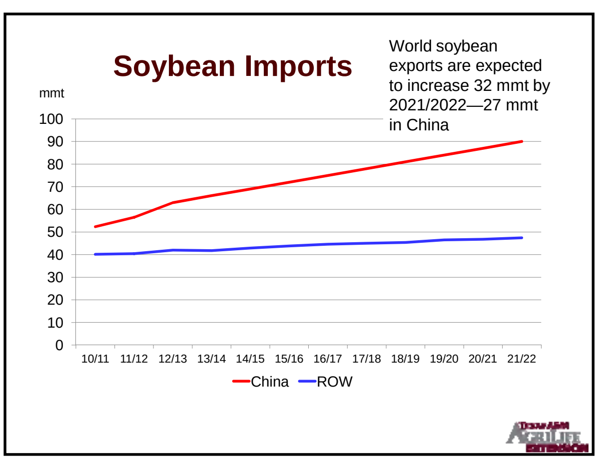
WASDE 2/8/2013

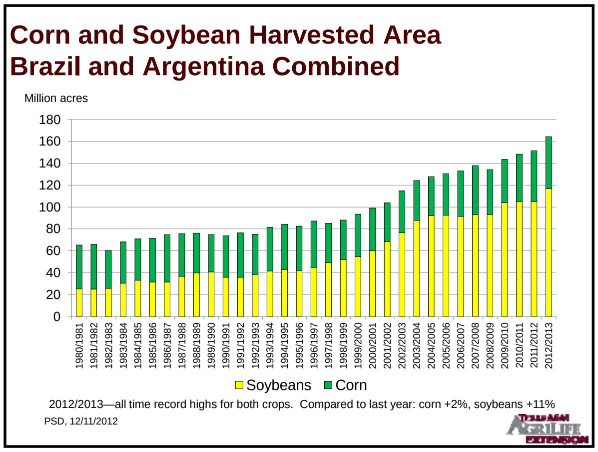
Wheat Production

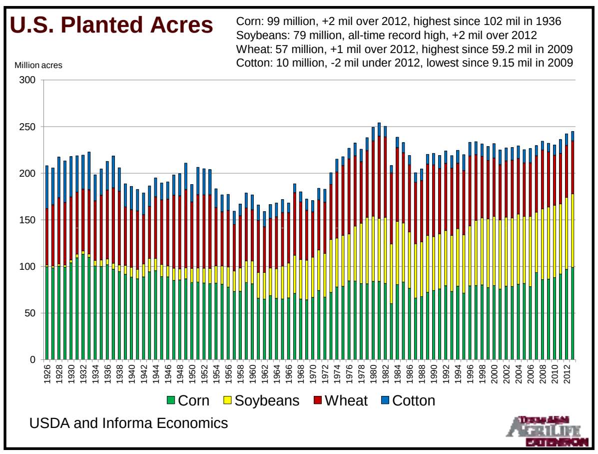


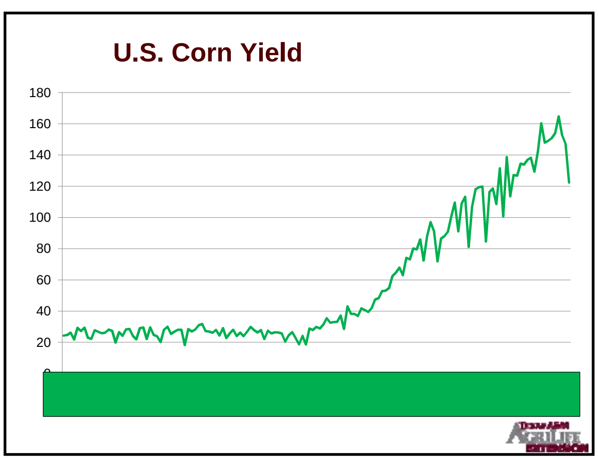

Top Wheat Importers 12/13
14%
22%
14%
18%
16%
15%
11%
12%
12%
13%
Top Wheat Exporters 12/13


World Soybean Use
mmt
200
180
160
140
120
100
80
60
40
20
0
16% of world total
29% of world total
2000/2001
2001/2002
2002/2003
2003/2004
2004/2005
2005/2006
2006/2007
2007/2008
2008/2009
2009/2010
2010/2011
2011/2012
2012/2013
Rest of World
China

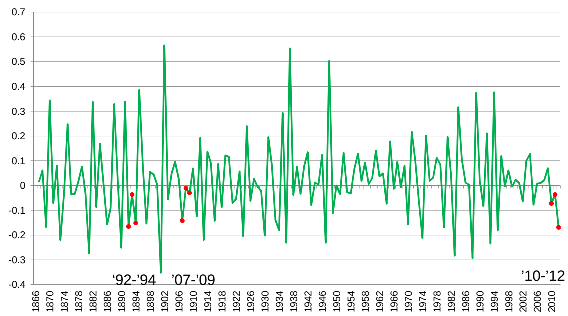

Soybean Imports
World soybean exports are expected to increase 32 mmt by 2021/2022—27 mmt in China
mmt
100
90
80
70
60
50
40
30
20
10
0
10/11
11/12
12/13
13/14
14/15
15/16
16/17
17/18
18/19
19/20
20/21
21/22
China
ROW


Corn and Soybean Harvested Area
Brazil and Argentina Combined
Million acres
Soybeans
Corn
2012/2013—all time record highs for both crops. Compared to last year: corn +2%, soybeans +11%
PSD, 12/11/2012


U.S. Planted Acres
Corn: 99 million, +2 mil over 2012, highest since 102 mil in 1936
Soybeans: 79 million, all-time record high, +2 mil over 2012
Wheat: 57 million, +1 mil over 2012, highest since 59.2 mil in 2009
Cotton: 10 million, -2 mil under 2012, lowest since 9.15 mil in 2009
Million acres
Corn
Soybeans
Wheat
Cotton
USDA and Informa Economics

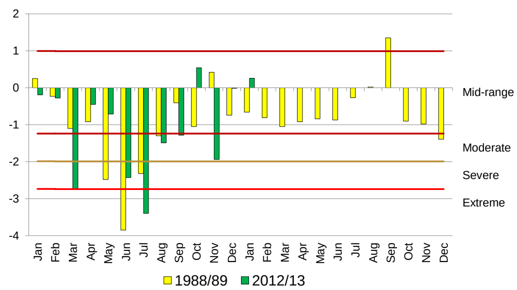

U.S. Corn Yield

Percentage Change in U.S. Corn Yields



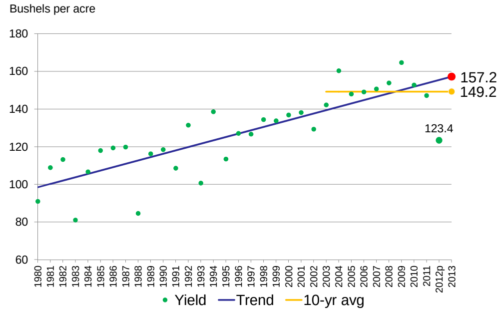
Area Weighted Corn Belt Palmer-Z

1988-1989 vs. 2012-2013
(productivity weighted)



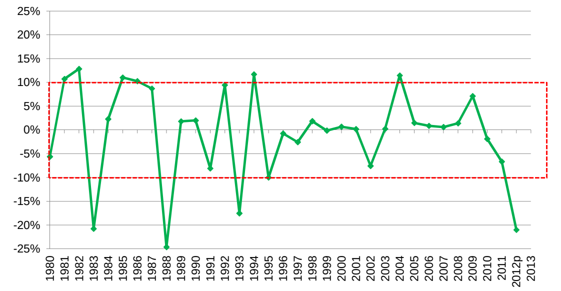
Palmer Z Index: measures short-term drought on a monthly scale.
National Climatic Data Center,
http://www.ncdc.noaa.gov/temp-and-precip/time-series/index.php?parameter=zndx&month=11&year=2012&filter=p12&state=261&div=0

U.S. Corn Yields

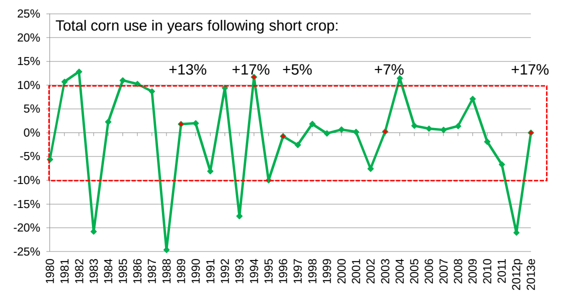


WASDE, 2/8/2013

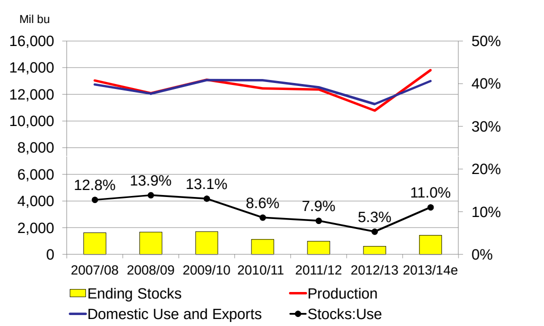
Corn Yield, % Deviation From Trend



Corn Yield, % Deviation From Trend



U.S. Corn Supply and Demand



Source: *WASDE* 1/11/2013 and personal estimate

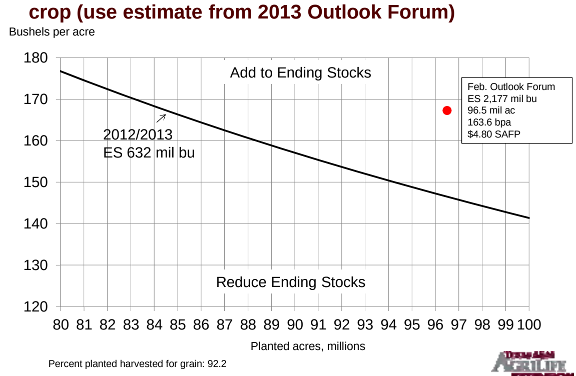
U.S. Corn S&D

USDA Outlook Forum

February 22, 2013

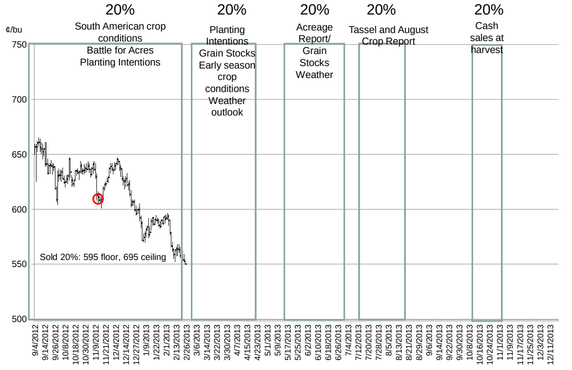
	12/13	13/14	%Δ
Planted Acreage (Mil. Acs.)	97.2	96.5	-0.7
Harvested Acreage (Mil. Acs.)	87.4	88.8	+1.6
Yield (Bushels)	123.4	163.6	+32.6
Supply	- - - Million Bushels - - -		
Beginning Stocks	989	632	-36.1
Production	10,780	14,530	+34.8
Imports	100	25	-75.0
Total Supply	11,869	15,187	+28.0
Disappearance			
Feed and Residual	4,450	5,400	+21.3
Food, Seed & Industrial	5,887	6,110	+3.8
Exports	900	1,500	+66.7
Total Use	11,237	13,010	+15.8
Ending Stocks	632	2,177	+244.5
Carryover/Use (%)	5.6	16.7	+11.1
Average Farm Price ($/Bu.)	7.20	4.80	-33.3

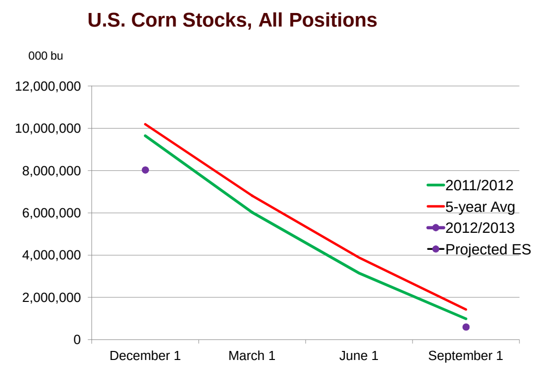
Area and Yield Needed to Produce 13.010 billion bushel crop (use estimate from 2013 Outlook Forum)



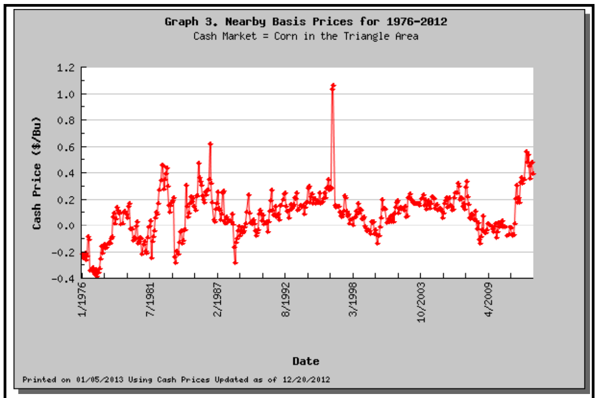
Percent planted harvested for grain: 92.2

December Corn Futures and 2013 Marketing Plan

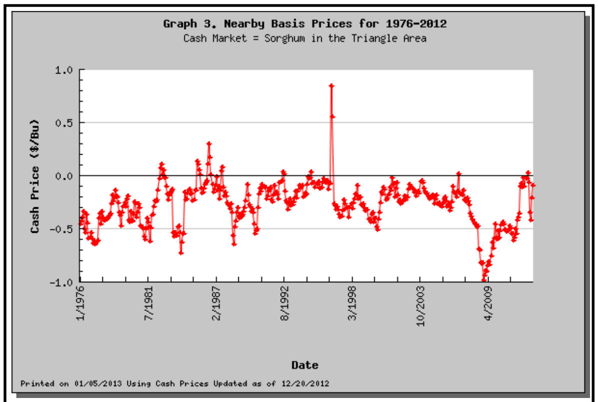




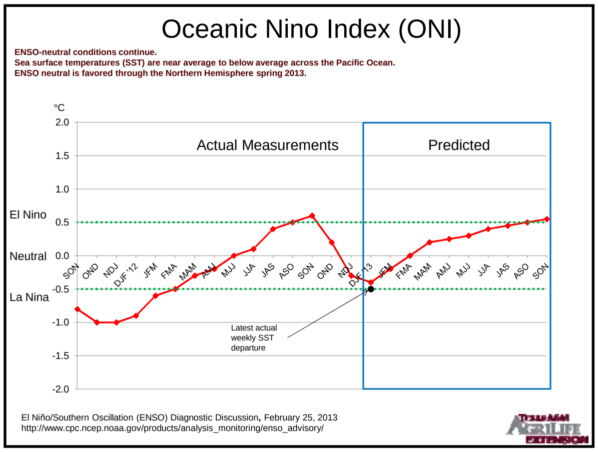
NASS, 1/11/2013



http://agecoext.tamu.edu/programs/marketing/master-marketer-program/basis-website.html



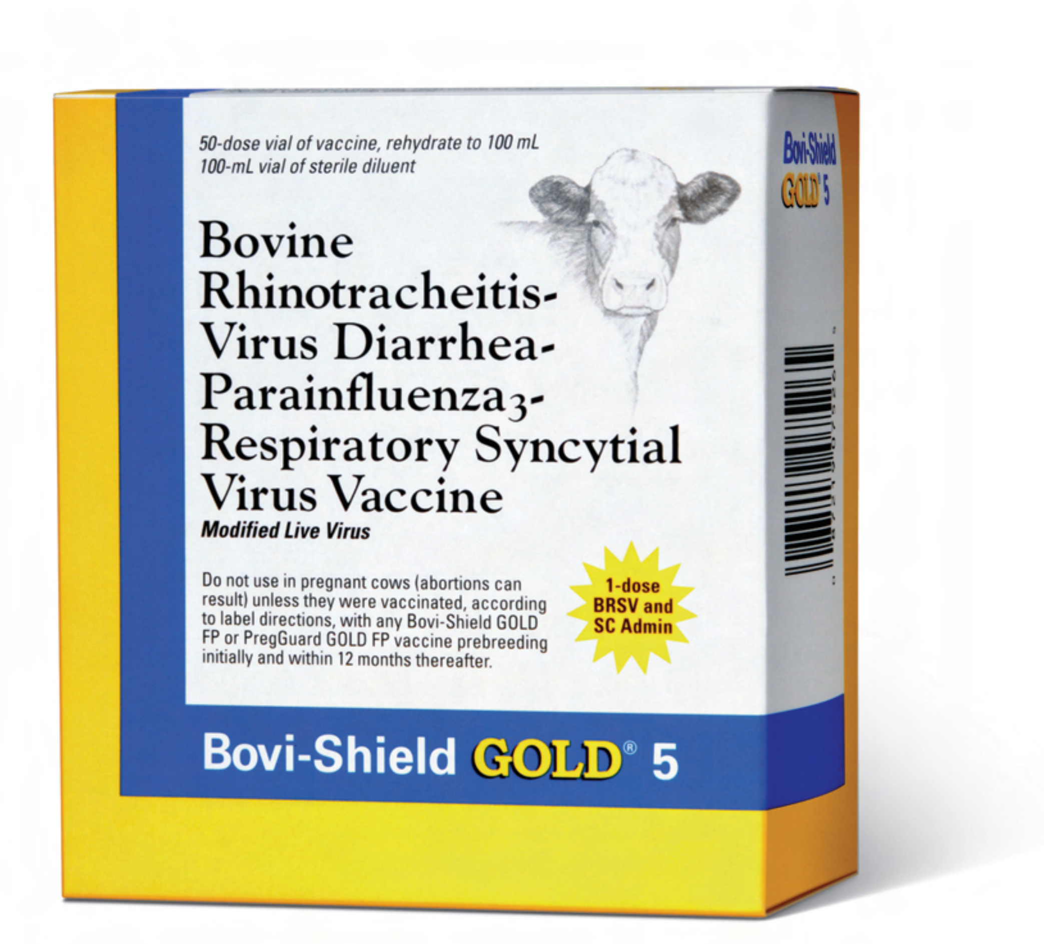
http://agecoext.tamu.edu/programs/marketing/master-marketer-program/basis-website.html


Oceanic Nino Index (ONI)
ENSO-neutral conditions continue.
Sea surface temperatures (SST) are near average to below average across the Pacific Ocean.
ENSO neutral is favored through the Northern Hemisphere spring 2013.
°C
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
El Nino
Neutral
La Nina
Actual Measurements
Predicted
SON OND NDJ DJF '12 JFM FMA MAM AMJ MJJ JJA JAS ASO SON OND NDJ DJF '13 JFM FMA MAM AMJ MJJ JJA JAS ASO SON
Latest actual weekly SST departure
El Niño/Southern Oscillation (ENSO) Diagnostic Discussion, February 25, 2013
http://www.cpc.ncep.noaa.gov/products/analysis_monitoring/enso_advisory/


Mark Welch, Economist—Grain Marketing
JMWelch@tamu.edu
(979)845-8011
http://agecoext.tamu.edu/index.html

WE ALL KNOW WHAT A CALF LOOKS LIKE.

HERE'S WHAT THE LONGEST DEMONSTRATED RESPIRATORY PROTECTION LOOKS LIKE.*



*AS DEMONSTRATED BY IBR AND BVD TYPES 1 AND 2 RESPIRATORY DURATION OF IMMUNITY LABEL CLAIMS WHEN ADMINISTERED SUBCUTANEOUSLY.

zoetis™

RETIRING INTO RANCHING

Room 201ABC

Speaker:

Dr. Rick Machen, Texas A&M AgriLife Extension Service

Retiring to Ranching

Rick Machen and Ron Gill
Texas A&M
AgriLife Extension Service
2013 TSCRA School for Successful Ranching

According to Webster's dictionary:

> **re·tire** *v*. 1. To withdraw from action or danger. 2. To move back. 3. To withdraw from one's occupation: conclude one's working or professional career. 4. To go to bed.

The focus of this discussion centers on definitions two and three. Yet based on our personal experiences, wise counsel for those considering *Retiring to Ranching* might be to focus on the fourth definition before proceeding (*humor intended*).

The dictionary also defines a rancher as "one who owns or works on a ranch". Owning rural real estate and working in the outdoors is one thing. Being a responsible steward of the resources entrusted to you is another. Our challenge for this discussion is to outline a few noteworthy points for those blessed with the opportunity to *retire to ranching*.

We've arranged the discussion in an order that seems logical, beginning with items that universally must not be overlooked and concluding with suggestions specific to the development and management of a beef cattle operation.

1. Communication is essential.

Why ranching? Retirement for many means slowing down and having 'free' or leisure time to pursue items on the proverbial 'bucket list' (recreation, hobbies, new life skills, travel, quality time with family, etc.). In contrast, there is always something to be done on a ranch – stock to tend, water to check, fence to mend/build. Retirees need to enter ranching with eyes wide open and have a plan to balance ranch responsibilities with retirement dreams. Ranching can have many degrees of involvement – make sure you have the physical health, energy and time to manage your ranch.

With your spouse. Married couples retiring to ranching have likely mastered the art of communication. But as they retire and become ranchers, it is critically important they share the same or parallel goals for not only the ranch but also life off the ranch as well. Fishing and shopping may not conflict. Taking a ten-day cruise and heifer calving season are conflicting 'opportunities for involvement'.

With family (children, grandchildren). Sound management of natural resources is a long-term, ongoing effort that requires a passion. Understand the aspirations/intentions of the children and grandchildren. Are you building on or beginning a family ranching heritage? Do subsequent generations share the same vision and desires?

2. Clearly Establish and Outline Goals.

Goals should be specific, measurable, attainable and related. Goals are a vision of where you want to be. Some ranching and natural resource management goals may take more than one generation to achieve, so it's important families share ranch goals and are on the same page.

Land ownership – Why continue to own or consider purchasing/leasing a ranch? How much land/livestock do I need and/or can I realistically care for? Land/lease cost, supplemental feed/hay and labor are perennial residents on the top five cattle ranch annual expense list. Of the three, management has complete control over labor – you either hire help or not (acknowledging any limited physical ability of older ranchers may mandate hiring help). Size of the operation is certainly influenced by the need/ability to hire additional labor.

Natural resources – Is stewardship important? Do you want to leave the resources in as good or better shape than when they were entrusted to you? Natural resources are not immune to the effects of man and beast – maintenance and improvement of these resources requires effort.

Livestock – Do you have a preferred species (cattle, goats, sheep, wildlife) in mind? Are you willing to consider livestock best suited to your environment? Are you minimizing property tax burden, raising animals and/or producing food?

3. Financial Considerations

According to the Texas Standardized Performance Analysis database, the average annual cost to maintain a cow is well above $500. The average cost for quality young replacement females is well above $1000 per head. Bulls from reputable breeders/sources are $2500 and up. Stocker cattle prices currently start at $1.50/lb. So getting into or staying in the beef business requires significant capital.

Combine the cattle values mentioned above with current land values and it quickly becomes apparent financial management is a vital consideration as people retire to ranching. Financial stability for those retiring to ranching is based on stable retirement revenue covering living expenses. *With very few exceptions, do not expect cattle (or any livestock) to generate enough income to make land payments and/or cover cost of living expenses.*

Clearly define "profitable" and "tolerable". Hopefully, those retiring to ranching have retirement income that will cover living expenses. Profitable is income exceeding expense. Tolerable may be maintaining 1-D-1 Open Space valuation (minimizing property tax liability) with livestock (or wildlife) as the agriculture enterprise, with livestock (wildlife) generating revenue to cover all or most of the production costs. Due to land value appreciation and reduced debt on cattle loans (if cattle purchase was financed), net worth accumulates with time.

Whatever approach is taken it is critically important to establish a budget and adhere to that budget. Any variation from the original projections will create the need for communication with family or partners. Variations may seem small and not worthy of reevaluation of goals and objectives. However, small shifts in operational goals and tactics can lead to long-term changes in cash flow and draw on retirement funds.

Money is a personal matter. However, an annual review with a financial professional (accountant, financial advisor, loan officer, etc.) to monitor the status of available capital (cash/personal savings), operating capital (self-financed or borrowed) and other ranch debt is time and effort well invested.

Note: Lending cooperatives affiliated with the Farm Credit System are an excellent source of financing for rural Texans and agriculture ventures. In addition to available credit, most have a staff of lending professionals that are personally involved in and thereby understand agriculture.

4. Helpful Resources

As previously mentioned, those retiring to ranching are either returning to a previous lifestyle or entering a new lifestyle and pursuing a dream. In either case, a trustworthy, knowledgeable source of information will be a valuable asset.

Successful neighbors – Rural folks involved in agriculture are generally characterized as friendly and willing to help. The best source for help is a successful neighbor. If approached in a neighborly, cooperative spirit with eyes and ears open, most long-timers are more than willing to help. Good neighbors foster good neighbors.

Successful is a subjective term. If the neighbors have managed their ranch for two decades or more (through at least one drought) and the appearance of their ranch and livestock appeal to you, they qualify as 'successful' here. Those with a ranching heritage can be particularly insightful, as well as entertaining.

Texas A&M AgriLife Extension Service – Your local county extension agent is a professional educator and your window to a vast array of information and resources. With access to over 200 Extension specialists and a worldwide network of professionals, if they don't know the answer, they can find someone who does.
http://agrilife.tamu.edu/locations-window/

Natural Resource Conservation Service (NRCS) – A part of the US Department of Agriculture, this federally funded service works with landowners through conservation planning and assistance designed to benefit the soil, water, air, plants and animals that result in productive lands and healthy ecosystems. With service centers in most Texas counties, natural resource management information is not far away.
http://offices.sc.egov.usda.gov/locator/app

Local veterinarian – Find a local veterinarian with interest and expertise in your species (cattle, small ruminants, horses, pets) and involve them in the development of a preventative herd health plan. There is no substitute for their expertise.

Consultants – As more people retire to ranching and agriculture becomes more technical, professional consultants have become more available and are an excellent choice for one-on-one personal attention. Be prepared to compensate them for their services. Review their credentials and ask for references to ensure they have the knowledge and skills to get you where you want to go.

Do not rely on one source of information whether it is from the internet, some "how to" book or what someone just tells you as the "truth", substantiate the credibility and expertise of all your sources.

Agriculture Organizations – Never has it been more important for those involved in natural resource ownership and management to be a part of and participate in organizations that represent their beliefs and lifestyle and the state and national levels. Those with anti-agriculture and anti-private property ownership agendas are well organized, well-funded and intimately involved in environmental and animal welfare policy-making processes. Through organizations such as the National Cattleman's Beef Association, Texas and Southwestern Cattle Raisers Association, Farm Bureau and others, ranchers can collectively have a voice and make a difference.

For those retiring to ranching, the benefits go beyond representation in the political and media arenas. Membership in these organizations also offers education opportunities (conventions, monthly publications, newsletters, etc.), availability of insurance and purchasing discounts.

5. Required for Ranching

Those retiring to ranching often fall victim to hardware disease. This condition typically manifests itself in recognizable colors – yellow, green, blue, red and white. To the unsuspecting eye it looks like a bulldozer, backhoe, tractor with loader, skid steer, UTV, welder, stock trailer and 4 wheeler all tucked neatly inside a new barn that is located conveniently adjacent to a set of pipe corrals.

If retirement income can acquire and support these all is well. But be reminded of these words of wisdom from Mr. Frank Litterst, cattleman and long time Animal Science teacher at Texas A&M: "Never buy what you can rent/lease. Never rent/lease what you can borrow." (Remember this must be a two way street. If you borrow equipment offer to lend equipment as payment.) With that in mind, following is short list of things required for ranching.

Perimeter fence – Good fences make for good neighbors. The bare minimum for most cattle operations is five strands of barbed wire; bottom wire not more than 10 inches above and the top wire at least four feet from the ground. Net or woven wire offers the opportunity to better manage feral hogs and predators (ex. free-ranging dogs). Intensive wildlife management may warrant much taller fences.

Internal or partition fencing – Unfortunately, those retiring to their birthplace may find the fences worn out or in disrepair. Use existing fences when possible. If replacement fencing is warranted, seek the assistance of NRCS personnel or others with grazing management and livestock handling experience before building fence.

Work with your neighbors if at all possible to cost share rebuilding old perimeter fences. The useful life of a fence is about 15 to 20 years although some can last much longer if maintained properly over that time frame. It does not matter which side of the post the wire is on both properties own the fence. Even if the neighbors will not participate in replacing old perimeter fences go ahead and replace them if at all possible. Remember good fences make for good neighbors.

Note: For security reasons, always lock gates on the perimeter. Disable the push button on electric gate control boxes.

Barn/Storage – Many 'old' barns add an aesthetic element to the ranch and continue to serve the purpose of protecting equipment and supplies from the elements and providing secure storage. Metal buildings are a low cost replacement option. Retired cargo containers are also a popular choice. Available in lengths from 20 to 53 feet, they are a portable and secure storage option.

Note: Law enforcement professionals encourage rural residents to keep all valuables (tools, saddles, welders, generators, chain saws, etc.) under lock and key. Likewise, do not leave the ignition key in equipment or vehicles.

Handling facility – Again, use existing facilities as much as possible. If repairs or replacement is warranted, consider portable panels/pens before digging holes, cementing posts and welding pipe. Seldom are working pens built exactly right the first time. Portable panels allow reconfiguration or even relocation. And should the family choose to retire from ranching, the portable equipment is a liquid asset.

Note: For security reasons, do not locate pens near a public road. Cattle rustlers remain on the prowl and look for easy/quick access to cattle.

Restraining chute – A 'squeeze' chute is almost a must, unless a trailer is readily available and cattle will be hauled to a facility that has a chute (ex. neighbor, veterinarian). Manual chutes are equally functional but appreciably less expensive than hydraulic. If physical strength/ability is a limitation for operating a manual chute, recruit family, friends or hire help to operate the chute.

Scales – Knowing the correct weight (versus guessing) is critically important in the beef business. The dosage of most health products (anthelmintics, antibiotics, etc.) is determined by animal weight. Nutrient requirements are determined by body weight. Weaned calves and market cows and bulls are sold by the pound. Smaller operations may not be able to justify owning a scale, but it is important to know what your cattle weigh.

Livestock Trailer – Frequency of use determines justification for ownership. Selling calves and cull cows once a year does not warrant ownership of a cattle trailer. Most cattle auction companies will pick up cattle for a nominal hauling charge. Often trailers can be rented for short term use. All local livestock auction markets know local people who haul cattle on a load basis.

Admittedly, livestock trailers are often used for more than hauling cattle (feed, hay, UTV, fencing materials, etc.). And if a retirement from ranching occurs, used trailers are very marketable.

Heavy Equipment – Here again, frequency of use determines justification for ownership. Heavy equipment (bulldozer, excavator, backhoe) is expensive from purchase to operation and maintenance. Due to the infrequent use of this type of equipment, leasing equipment or hiring a heavy equipment contractor is likely the better option.

Farm tractor vs. skid steer? If farming (plowing, planting, hay production) is involved the choice is obvious. Otherwise, due to their mobility and versatility, consider a skid steer.

Hay feeding – Round bales have all but replaced the small square hay bales. In addition, folks retiring to ranching may not be comfortable or capable toting small square bales through a group of hungry cows. If hay feeding will be an annual routine, equipment to handle round bales is a must.

6. Cattle

Stockers - Cattle ownership is not a prerequisite to ranching. A viable option for those retiring to ranching is selling standing forage to those who own cattle. Leasing grazing rights is a low risk avenue into livestock production. Many of the aforementioned details become the responsibility of the cattle owner. Landowners can structure the grazing lease to include the level of cattle care and management both the lessor and lessee are comfortable with.

Stocker cattle (cows, heifers, yearlings, weaned calves) are recognized as a viable agriculture use for open space lands by local tax appraisal districts. Compared to owning cattle, leasing grazing rights has greater flexibility during drought or in the event of natural disasters (fire, flood).

Before buying stocker cattle (versus leasing the grazing) visit with,

a) local cattle marketing professionals regarding market conditions, source and availability of cattle and marketing options upon completion of the grazing period and;

b. a local veterinarian regarding a preventative health plan and treatment of cattle should illness arise. The economic success of a stocker cattle enterprise hinges on minimizing death loss and insuring weight gain.

Cow/calf – When most think of ranching, they envision a cow/calf operation – cows having calves once a year, growing those calves for six to eight months then weaning calves as they go to market.

An immediate question to consider is replacement females. Will they be raised (keep heifer calves) or purchased? For 1/1/1 operations (one group of cows/one bull/ one pasture), purchasing replacement females makes sense (removes the difficulty of managing heifers and inbreeding concerns due to breeding females back to their sire). Ranchers who can pasture and manage heifers separately may not be comfortable monitoring and managing heifers as they calve and therefore would choose to purchase replacement females which have already calved at least once.

Consumer ready beef – Consumer interest in locally-grown, natural and grassfed beef is on the rise. The idea of producing food from the land and cultivating a following of customers appeals to some as they retire to ranching. Notice this retained or longer ownership venture is actually a combination of cow/calf and stockers.

The greatest challenge for beef producers, whether cow/calf, stockers or consumer-ready beef is sustaining the quantity and quality of forage required to meet the maintenance and growth requirements of their cattle. The ongoing drought serves as a vivid reminder.

Low stress Handling – though consumers now take the safety and wholesomeness of their food for granted, they are ever more concerned about where and how food is produced. Animal welfare is a big issue. The days of whoop and holler cattle working have passed. Low stress stockmanship is not a new concept – it is a stewardship skill experiencing a timely resurrection. For more information or stockmanship learning opportunities go to www. http://effectivestockmanship.com.

One final comment regarding cattle and those retiring to ranching – there is NO room for unruly cattle with a poor disposition, regardless of their name, genealogy, genetic merit or perceived value. You have worked too long and hard to have your retirement dream interrupted by an avoidable injury or disability.

Conclusion

Those who choose to *retire to ranching* are likely pursuing:

1) the return to a lifestyle they enjoyed as a younger person and have fond memories of or,
2) a lifestyle they have observed and want to experience firsthand.

In either case, perhaps the greatest opportunity/responsibility born by those afforded the opportunity to *retire to ranching* is the enlightenment of the next one or two generations that follow.

Two percent of the US population feeds this great country and a significant portion of the world. The 98%+ too often take the availability, affordability, safety and wholesomeness of their food for granted and have little understanding of the 'soil to supper table' processes.

You are *retiring to a classroom* many want to visit. You have a responsibility.

Don't miss opportunities to teach…

the water cycle while watching the creek rise
the origin of food in the hen house, feed pen and garden
the meaning of life while caring for a newborn calf
the fruits of hard work while building a fence
the value of family involvement while hauling hay
the characters of stewardship and stockmanship while rotating pastures and
the complexity and coordination of it all under a starlit sky.

TEXAS A&M AGRILIFE EXTENSION

Notes

Save the Date!

2014 TSCRA
School for Successful Ranching
April 3-5, 2014
San Antonio, Texas

CONSERVATION EASEMENTS: CAN IT WORK FOR YOU?

202AB

Speaker:

Larry Kueter, Law Office of Lawrence Kueter

CONSERVATION EASEMENTS:

CAN IT WORK FOR YOU?

Texas and Southwest Cattle Raisers Association

March 22, 2013

Fort Worth, Texas

Lawrence R. Kueter

Law Office of Lawrence R. Kueter

1403 Forest Street

Denver, CO 80220

720-287-2508 larry@lrk-law.com

Conservation Easements: Can It Work For You?

1. Title for this Session might suggest there is one answer to the question.
   a. But the question is a very personal one for any landowner.
   b. And the answer is not the same for everyone.
   c. A decision to do a conservation easement is very permanent and requires appropriate due diligence and analysis.
   d. But prudent business planning suggests that the benefits and restrictions of a conservation easement should be understood by landowners as they consider long term planning issues for a ranch.

2. Goals of this session
   a. Provide some basic information regarding the requirements for a conservation easement.
   b. Discuss the tax benefits for the donation of a conservation easement.
   c. Provide some information from other states where significant conservation is occurring on ranchlands.
   d. Suggest several next steps for someone with an interest in finding out more about conservation easements, or with a desire to understand them better.

3. Requirements for a conservation easement to qualify for federal tax benefits.
   a. A conservation easement is a recorded restriction on real property that limits development and preserves the scenic, agricultural, and wildlife values of a property.
   b. The conservation easement does not have to freeze the condition of the property at a moment in time, and some limited reserve rights, such as the right to build additional agricultural structures and the right to construct a small number of additional residences, can be permitted.
   c. Hunting, fishing, wildlife viewing, and other activities that are consistent with the conservation values are typically permitted.
   d. The property must have conservation values that benefit the public and satisfy the Treasury Regulations. The four types of conservation values identified in the Treasury Regulations are
      i. Public recreation.
      ii. Wildlife habitat.
      iii. Open space (including farmland) for the scenic enjoyment of the public.
      iv. Historic structure or area.
   e. The conservation easement must be donated to one of the following type of entities:
      i. A 501(c)(3) charitable conservation organization (typically a land trust).
      ii. A governmental entity.
   f. The conservation easement must be perpetual.
   g. A baseline report must be prepared documenting the condition of the property at the time of the conveyance.

h. If mineral rights have been severed from the surface ownership, a mineral report is required. Depending on how it is done, some oil and gas exploration can be consistent with the protection of the conservation values.
i. Any mortgages must be subordinated to the terms of the conservation easement.
j. A management plan is not required by the Treasury Regulations, but may be required if the conservation easement is being purchased. Management plans range from very detailed to very innocuous. Unless specifically agreed to by the landowner and included in the terms of the conservation easement, the holder of the conservation easement does not have the right to direct how the property is managed on a day to day basis.
k. Public access is not required.

4. Federal Tax Benefits.
   a. The donation of a conservation easement generates a federal charitable deduction equal to the value of the donation.
   b. Notwithstanding the general limitation that charitable deductions can only be used to offset 30% of adjusted gross income and only carried forward for 5 years, a taxpayer may offset up to 50% of their adjusted gross income for a conservation easement and carry forward the deduction for up to 15 years, and it rises to 100% of their adjusted gross income if the individual is a qualified farmer of rancher who receives more than 50% of their gross income from the business of farming.

c. These additional benefits currently expire at the end of 2013, but they have been in place since 2006 and have been renewed by Congress each time they have expired.
d. During the first year of ownership, the donation is limited to the basis in the property.
e. It is possible to “phase” the conservation easements, i.e. place a conservation easement on just a portion of an owner’s property, and then do another conservation easement in a subsequent year.
f. The value of the conservation easement donation is determined by a “before and after” appraisal that determines both the unrestricted fair market value of the property before the conservation easement, and the restricted value of the property after the placement of the conservation. The difference between the before and the after value is the value of the conservation easement.
g. Some governmental entities purchase conservation easements from landowners. In Colorado it occurs at the state and county level. At the federal level, the Grassland Reserve Program and the Farm and Ranchland Protection Program purchase conservation easements. Typically those purchases are not for the full value of the conservation easement, and the difference between the full value of the conservation easement and the purchase amount is deductible as a charitable gift. This type of transaction is usually referred to as a “bargain sale”.
h. The benefit of a conservation easement for estate tax purposes is that a conservation easement that qualifies under the

Treasury Regulations will reduce the value of the property for estate tax purposes.

i. An additional estate tax benefit is that an estate can exclude from the value of the estate up to 40% of the value of land subject to a qualified conservation easement, up to a maximum of $500,000.

5. The Landscape of Western Agricultural Land Trusts
    a. In 1995 the Colorado Cattlemen's Association created the Colorado Cattlemen's Agricultural Land Trust. It now holds over 275 conservation easements on over 400,000 acres of land, and has significant credibility with the Colorado agricultural community.
    b. From that example, other state wide producer organizations in Texas, Kansas, Wyoming, California, and Oregon/Washington created similar land trusts to serve their ranching communities. The Texas organization is the Texas Agricultural Land Trust.
    c. With the Montana Land Reliance, which has a formal working arrangement with a state wide cattle producer's organization in Montana, these entities created the Partnership of Rangeland Trusts. Collectively these seven organizations have completed almost twelve hundred conservation easements on almost two million acres of land.
    d. A common theme of these organizations is that most of the boards have at least a majority of the board appointed by the state wide producer's organization. This means that a landowner is dealing with an organization with a board made up of its peers in the ranching industry.

6. Additional steps
    a. Probably the most important step in considering a conservation easement is to investigate and find a land trust that is a match for the landowner.
    b. That means having a mission consistent with the motivation of the landowner, which could mean an agricultural land trust if motivated by conserving ranchland, or which could mean a national organization if motivated by the protection of an animal or plant species.
    c. That means having a board that the landowner will have a level of comfort with, which could be an agricultural land trust representing the landowner's industry or a local or regional land trust representing the landowner's geographic community.
    d. That means having an organization that a landowner feels confident will deal with them fairly in negotiating the conservation easement and in addressing issues that arise over time under the conservation easement.
    e. The land trust should be used as a resource for the landowner. While not a substitute for the professional advice recommended below, land trust are typically knowledgeable about conservation easement transactions, and should be able to help a landowner.
    f. The landowner should also understand the requirements of the land trust for holding a conservation easement.
    g. This outline covers the highlights of conservation easements. Because conservation easements are perpetual, it is critical to

get competent professional advice to be sure that the conservation easement is done properly. That means hiring an attorney familiar with conservation easements and an appraiser who has appraised conservation easements.

h. Many landowners will also need to consult with their accountants to fully understand the economic consequences of doing a conservation easement.

i. Finally, a conservation is sometimes done to protect the land for the next generation (although on occasion it is to protect the land *from* the next generation). Therefore the decision to pursue a conservation easement is often a family discussion and decision.

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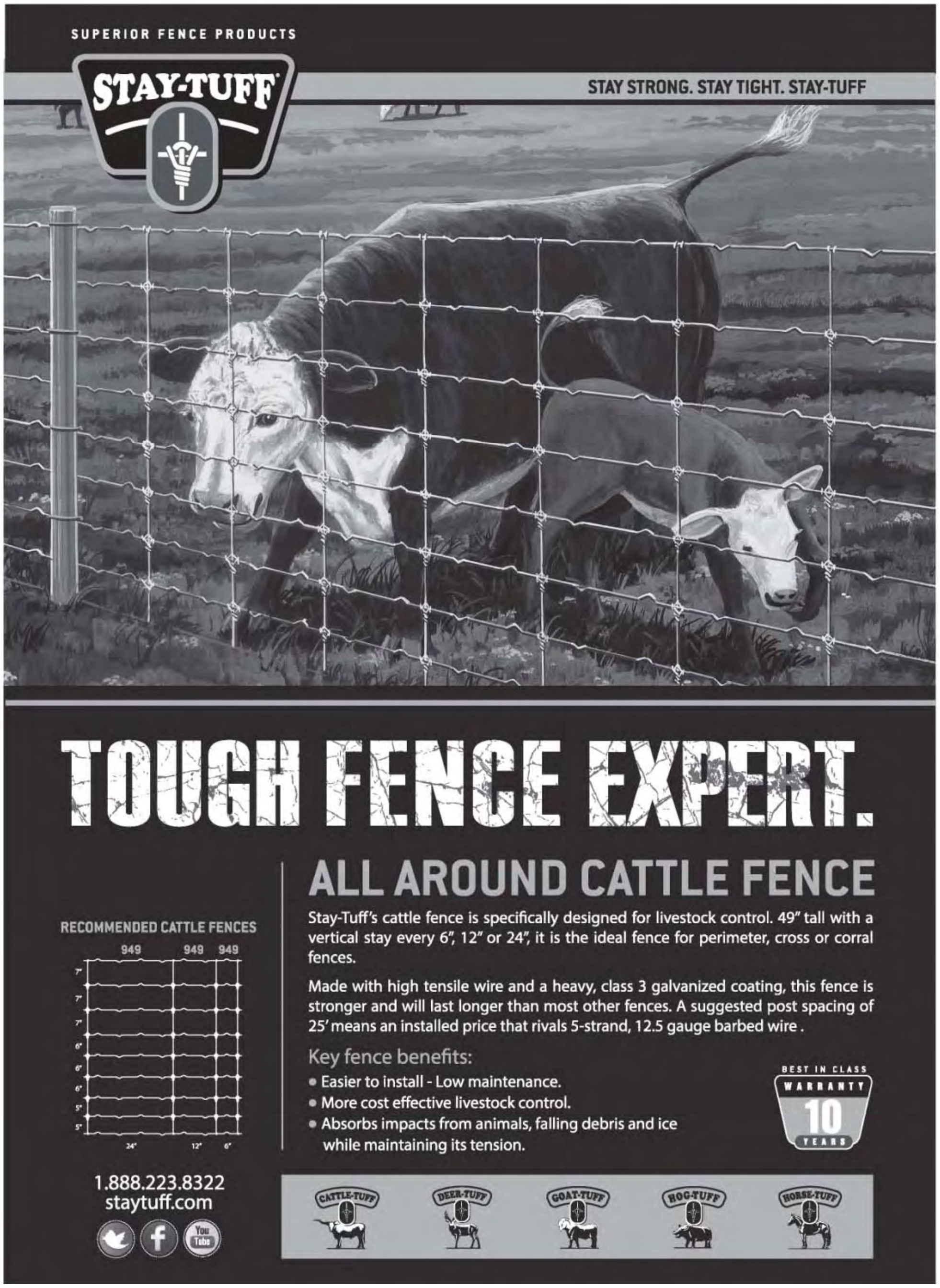
Notes



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ESTATE PLANNING

Room 202AB

Speaker:

C. Beth Roberts, Lincoln Financial Group

(Proceedings information reprinted from *The Cattleman* magazine)

A Plan of Action

Thanks to a 2-year extension of the current estate tax laws, business owners have a window of opportunity to plan who will inherit family assets, and how. The window may close, or may be altered, at the end of 2012.

By E.C. Carson

Editor's Note: In late 2010, the U.S. government extended the current level of estate taxes for 2 years. Without this extension, the heirs of businesses, such as family ranches, would have faced upwards of 50 percent inheritance tax. In about a year, elected officials will once again debate the merits of estate taxes.

Regardless of upcoming governmental decisions, ranchers can take steps to ensure their life's work is protected when it is transferred to the next generation. Below is the first of a 3-part series on estate planning. This story provides an overview of estate planning, and discuss why many ranchers avoid this vital aspect of business.

Families in the ranching community are fortunate that the grandparents, parents and grandchildren get to spend time together. Regina and Coleman Locke, Hungerford, enjoyed time with their grandchildren Jessica, Parker and Austin DeBerry at the 2009 TSCRA Convention Weekend, Fort Worth.

Estate planners urge business owners, such as ranchers, to spend time now planning how to pass on assets they've earned and to keep the business or ranch intact and viable.

Mike Fuller remembers the first time his brother, Mark, discussed estate planning with him.

Mark, a board member for the Association of General Contractors (AGC), traveled each month to Austin, to bid on road construction jobs for the State of Texas. During each monthly meeting, the AGC board invited guest speakers to address key issues impacting the industry and individual contractors.

At a fall meeting in 1998, Texas and Southwestern Cattle Raisers Association (TSCRA) member C. Beth Roberts, a Registered Financial Consultant with Lincoln Financial Advisors, spoke on the value of estate planning. Mark returned to his brother — his best friend and business partner — to outline what he had learned.

Mike and Mark Fuller represented the "Sons" in the L.A. Fuller and Sons Construction, a large paving company founded by their father in the 1940s, responsible for building everything from interstates to parking lots.

When their father passed away in 1990, the brothers had already assumed the day-to-day operation of the company, so the estate planning had occurred naturally over years. However with leadership shared between the siblings, and with each brother responsible for spouses and children (Mike with 4 sons, Mark with a son and a daughter), they knew that estate planning would be essential.

"We didn't even know what estate planning was at first," Mike Fuller said. "You hear about it and you know that you need to do it, but you think you're going to live to be 110 years old and that you'll take care of estate planning when you're 109."

The Fuller brothers invited Roberts to their base of operation in Amarillo to educate them on estate planning and begin the process. With more than 35 years' experience, Roberts understands the confusion surrounding estate planning.

MORE

"Most people believe that drawing up a will serves as an estate plan, but an estate plan encompasses so much more than that," she said. "An estate plan not only outlines what assets are going to be transferred to the next generation, but details a step-by-step process on how they are going to be passed, as well as outlining what efforts need to be made each year to advance that transition to maximize savings for the owner."

Roberts explained that only 12 percent of family businesses, such as ranches, pass to the third generation primarily because the owner either has no one to take the business or there is a lack of planning.

Take advantage of this window

"The No. 1 reason people do not estate plan is fear," Roberts said. "Most people are afraid to tackle the estate planning because they've heard horror stories about how complicated it is or how much it costs, or they can't face the subject entirely. They don't know how to start so they never do."

Fear was not an obstacle in the Fuller brothers' situation. They just needed knowledge, so Roberts began the process by explaining the current estate tax laws (the very laws that could change dramatically in 2013). For the next 16 months (until the end of 2012), estates with assets, which includes every piece of property owned, from houses and equipment to mineral rights and investments, that total less than $5 million can gift the entire estate to an heir without the penalty of an estate tax. Any assets exceeding $5 million are subject to an increasing graduated tax scale that ranges between 35 to 50 percent.

"Throughout my 35 years of experience, there have been windows to take advantage of tax law, and we are in a window now," Roberts said. "Why wait and see what the government does in 2013, when you can handle your estate under the current guidelines? Some people say the government will get rid of the estate tax. Don't believe that. They're never going to get rid of the estate taxes."

If the federal government ever eliminated the tax, many states, such as Texas, have laws that would become active and would begin a state-level estate tax. Additionally, under the current system, the federal government already sends a portion of the estate taxes back to the states.

Roberts gave the example of a couple who lives in Michigan, but owns a vacation home in Florida. "Their estate is split, so the government gives each state a certain percentage of the taxes collected," she said.

Arthur Uhl, an attorney who specializes in estate taxes, a TSCRA director and chairman of the TSCRA legislative and tax committee, echoes Roberts' call for ranchers to pursue estate planning, especially under the current law. Uhl says unless the estate tax laws are changed in less than a year and a half, the law will automatically shift to a 50-percent tax on any assets exceeding $1 million.

"To be safe, you should prepare now," Uhl says. "We have a decent situation now, but unworkable situation looming unless a new law is passed."

Businesses like ranching and construction are usually among the industries hardest hit by the estate taxes, because they require large capital assets and have low returns. "The rate of return for the ranching industry is usually less than 1 percent," he says. "It usually takes millions of dollars worth of land and equipment to produce thousands of dollars of food."

Uhl says, beyond facing extraordinary operational challenges from weather to animal health, ranchers often pay taxes multiple times on the same asset, making estate taxes redundant and ineffective.

"Ranchers pay taxes every minute of their life and multiple times on the same piece of property. To tax their heirs is not right. It is a patently unfair tax," Uhl says. "Additionally, estate taxes bring in less than the cost of compliance. In other words, the amount of revenue generated from estate taxes is less than the amount it costs to operate the program. Still, these taxes exist, and if a rancher does not plan for them, they can be disastrous for a ranch and the people who depend on it."

Like many ranchers, the Fuller brothers' construction business requires a great deal of capital investments. They knew they were going to exceed the assets threshold and be subject to extraordinary taxes rates, making estate planning even more vital. "Most people in our business are second or third generation contractors, just like farmers and ranchers," Fuller said. "You just can't wake up and want to get into these types of businesses, because of the capital required. You have to spend half a million dollars on a piece of equipment and not bat an eye. It just costs too much. "

Assembling a cost-effective planning team

Cost is often a deterrent to estate planning. Many ranchers believe that the cost of estate planning (both time and resources expended) will far outweigh any benefit achieved. Fuller understands that thought process, but summed up his argument for estate planning with a little simple math.

"You can pay some fees to knowledge people, or you can lose 50 percent to taxes," he said. "It would have cost us a whole lot of more money to be unprepared than be prepared."

Roberts, Uhl and Fuller all believe the key to developing a successful estate plan was assembling the right team with specialized knowledge.

Roberts, who is a financial planner, not an attorney nor an accountant, acts as the "quarterback of the team," working to outline the goals and objectives of the family; bringing in the right attorneys and accountants to produce the correct documents; and then review every line of documentation with the family, so they fully understand each aspect of their estate plan.

Roberts offered some straightforward advice for those who are considering beginning their own plan. "If you decide not to bring a financial advisor and, instead, just to work with a lawyer and accountant yourself, then I urge you not to go to an oil-and-gas attorney, a real-estate attorney or your family attorney," she said. "Go to a specialist. Go to a tax attorney. Go to someone who knows this particular set of laws."

Additionally, Roberts said not to use your local bank as a trustee. "Your local bank is usually not your friend," she said. “Local banks want to hold onto the money. I have seen countless horror stories from widows who needed foundation repairs, to children who need money for college, that were denied funds from the bank.”

Uhl offered additional advice for first-time estate planners, who are selecting professional help. “Do your research on any attorney or any financial advisory group,” he said. “Ask for references. If you don’t understand what they’re saying, then go find someone who will. If it sounds too good to be true, then it probably is.”

As for the Fullers, their estate planning went smoothly. In about a year and a half, the brothers — led by Roberts’ team — had assembled a plan that ensured a seamless transition of the business in the event that either brother passed away. (The Fuller brothers’ complete estate planning process, as well as tips on subjects ranging from decoupling to community property, will be detailed in the second-part of *The Cattleman’s* special series on estate planning.)

“Nobody likes to think about when they’re going to die,” Fuller said. “Apprehension of that is what keeps people from doing their estate planning. They get foolish about it. Dying is a part of living. It’s not going to go away. The only thing you can do is prepare the best you possibly can because that moment will catch up with us sooner or later.”

Unfortunately, that moment came much too soon for Mark Fuller, who was diagnosed with cancer less than 2 years after the brothers had locked in their plan.

“When he was first diagnosed, you have all the emotions and thoughts that run through your mind. There is fixation on the chemo and radiation. You know it’s going to be awful,” Mike Fuller said. “Even with all of that hanging over our heads, we knew that if he got well, we’d continue as planned. We also knew if he didn’t make it, the company and his family were not going to be in peril.”

In 2004, Mark Fuller passed away at the age of 54. “You always think you have plenty of time to get your estate in order,” his brother said. “We all think we’re bullet proof. We all think we have a lot of life left and a lot of time to do things, but no one is guaranteed the next moment.”

The estate plan that Mark was so eager to initiate worked flawlessly, providing his family ample means to live and Mike the ability to keep the company functioning.

“Mark was more than my brother he was my best friend,” Fuller said. “I miss him terribly every day. We hunted together. We skied together. We worked and played together. That’s why you do estate planning. You do it for your family. You do it because you love them.” ■

A Plan of Action

Assembling the Parts of the Plan

By E.C. Carson

Vintage family photos like this are probably common among ranching families. Careful planning will help business-owning families, like ranchers, add more generations to photos taken on the family ranch.

Editor's Note: *The following story is the second feature in 3-part series on estate planning. This story covers key areas that must be considered when assembling an effective estate plan.*

C. Beth Roberts knows the window is closing.

Having been a Registered Financial Consultant for 25 years, a registered representative with Lincoln Financial Advisors, and a member of the Texas and Southwestern Cattle Raisers Association (TSCRA), Roberts' experience tells her farmers and ranchers must act now to protect their estates.

In late 2010, the U.S. federal government extended the current level of estate taxes for 2 years. Without this extension, the heirs of businesses, such as family ranches, would have faced upwards of 50 percent inheritance tax on any income over $5 million. In less than 15 months, elected officials will once again debate the merits of estate taxes and there remains the potential for the taxable threshold to be dropped to $1 million.

"The federal government could make sweeping changes in less than a year and a half, so this is the time to act," Roberts says. "Most people are afraid to tackle estate planning because they've heard horror stories about how complicated it is or how much it costs. They don't know how or where to start, so they never do."

Arthur Uhl, a TSCRA director and chairman of the TSCRA legislative and tax committee, specializes in estate planning for those in the agricultural industry. His advice for taking the first step — find an accountant and/or an attorney dedicated to estate planning.

"This is a complicated field," Uhl says. "Individuals beginning an estate plan need to find an advisor who understands the specific laws that govern estate planning, instead of just a general practitioner."

Roberts believes financial planners, such as she, can provide an additional service, becoming the quarterback of a team of attorneys and accountants, while providing clear direction and translating sometimes complicated legal issues to the client. "No matter if you choose just an attorney, or select a financial planner, always remember that if someone is talking above you, go find someone else," Roberts says. "You need to find someone [clients] trust. It will make the process much smoother."

What do you consider a successful life?

Mike Fuller can attest to the value of smooth estate planning process.

Fuller, along with this brother, best friend and business partner, Mark, owned L.A. Fuller and Sons Construction, a large paving contractor founded by their father in the 1940s.

The company has built everything from interstates to parking lots in Texas and, like many agricultural operations, consists of millions of dollars in overhead and machinery. In the fall of 1998, the pair hired Roberts to help map out an estate plan that would protect both brothers and their respective families in the case that either passed away.

Unfortunately, the Fuller brothers' estate plan was put into action much sooner than expected when Mark passed away from cancer in 2004 at the age of 54.

"You're never guaranteed the next moment," Mike Fuller says. "You have to be prepared. If you own a business, it is the responsible thing to do."

Roberts explains that all successful estate planning begins with a question that will define the rest of the process: What is a successful conclusion to your life? "The answer to this question will help them formulate the specific objectives," she says. "Those objectives serve as the foundation for the plan."

MORE

Additionally, the family dynamic is an early-stage variable that must be addressed. Only spouses, not children or the children's spouses should be involved in the formulating the estate planning. "When I speak of children, I mean people who are in their 40s or older," Roberts says. "There is a tremendous amount of emotion involved in this topic, and couples have to work through that emotion without the influence of their children. The worse thing they can do is bring their children into the mix.

"They must remember 2 things. You are dealing with human nature, and discussing who gets what and why. That is complicated at best. The second thing they must remember is they are doing this for their family. If there is no plan in place when they pass, the grieving will turn into conflict, which will turn into chaos, and that ultimately turns into a legal battle."

In the case of the Fuller brothers and their wives, they found unity in the process. "We were all on board," Fuller says. "Had someone not been on board, it would have been awkward. We all wanted the best not only for the company, but best for the family, so that was our goal from the start and we worked from there."

Assembling the details

Once goals have been defined and family dynamics considered, those who undergo estate planning will need to provide virtually every imaginable document pertaining to their life and finances including bank accounts, investments, tax returns, business agreements and investments.

"I never consider the process burdensome. It was just sort of in the background," Fuller says. "Assembling some of the information was tedious since we were trying to run a business, but it is much less painful than you expect. More so, you're protecting what you've spent a lifetime building, and that's worth any amount of time and effort."

Often, appraisals will need to be made on the estate's assets. Uhl points out that land appreciates rapidly, which could easily impact the overall value of the estate, and needs to be tracked. "Ranches that are worth $3 million today could be worth $10 million in 15 years," Uhl says. "This is something to consider at the very beginning."

When working with a financial planner, such as Roberts, the documents and appraisals are dissected by a team, which develops a variety of options. Among the alternatives are holding assets or beginning a gradual transfer to the next generation. Additionally, investment opportunities are discussed, and insurance policies are usually updated or purchased.

"A good estate planner will provide you with several options, then educate you on what is possible," Roberts says. "Each option can have varying degrees of risk, so again make sure that you and your spouse fully understand each step."

Uhl usually suggests ranchers consider transferring the estate into a limited family partnership, which reduces the tax burden on any one individual. "In a limited family partnership, no one owns the ranch; instead, they own a stake in it," Uhl says. "This discounts the value because of the lack of liquidity and lack of control. This is usually a helpful step."

The Fullers developed a buy-sell agreement wherein if a brother passed away, his spouse would sell to the remaining brother. Neither wife wanted to be a partner, nor had the experience to manage a massive paving business. The estate plan provided financial security for Mark's wife, and removed the pressures of the business from her, while allowing the business to pass securely to Mike. "There could have been many uncomfortable scenarios if we had not had a plan in place," Fuller says. "Suppose we had nothing, no plan. We were just going down the road and then something happens," Fuller says. "We would have had a huge problem. My sister-in-law would have had a huge tax issue. I'd want to buy the business from her, but maybe couldn't have afforded it. The business and the family would have suffered. It could have been a complete disaster."

The Fullers' estate plan took about a year and a half to develop; however, Uhl says that many can be completed in 2 to 6 months. Still, every plan is unique and every timeline is different. Roberts emphasizes a few of the more tricky factors that can gum up the estate planning process, specifically decoupling and community property states.

Decoupling refers to a potential division between the federal government and individual states in the collection of estate taxes. Currently, the federal government provides a certain amount of estate taxes back to each state. However, a handful of state governments, such as in Massachusetts, are writing their own estate tax laws that no longer run in tandem with the federal agenda. This means that even if an estate does not reach the minimum $5 million value to be taxed by Uncle Sam, it could still be subject to estate taxes at the state level.

This decoupling factor also would play a role if the federal government ever abolished estate taxes — a political red herring, according to Roberts. "There was some talk of getting rid of estate tax, which will never happen," Roberts says. "When the discussions heated up, each state wrote their own laws. If the federal estate tax went away, then the state laws would kick in. There are no freebies in life."

Another blind spot in estate planning are the 9 (sometimes 10) community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, Wisconsin and, in some cases, Alaska).

In a community property state, each spouse owns a "present, equal and undivided interest in each asset." In other words, everything is split 50-50. However, if the spouse dies, their family could lay claim to that spouse's share of the assets, meaning in-laws in community property states could take a portion of the ranch, cash, etc. "This just shows another value of estate planning, which is radically different from a will," Roberts says. "Through an estate plan, you can ensure that the ranch passes only along the family line."

Lastly, Roberts brings the discussion back to family, specifically, children. Dividing property among siblings is often difficult, especially if one child is involved in the family business and one is not. Parents often look for an even split; however, Roberts suggests that "fair and equal are not necessarily the same thing."

While not as arduous as most people imagine, assembling an effective estate plan does require time and patience, as well as careful consideration about family dynamics. Still Roberts knows it is worth any potential cost or time. "The only barrier keeping someone from beginning an estate plan is their own fear, but they have to remember the window is closing," Roberts says. "My estate plan is done, and I have to tell you, I sleep well at night." ■

A Plan of Action

Plan Your Work, Work Your Plan

By E.C. Carson

Vintage family photos like this are probably common among ranching families. Careful planning will help business-owning families, like ranchers, add more generations to photos taken on the family ranch.

Editor's Note: *This is the final installment in the 3-part series on estate planning. This story, the series finale, will provide pointers on properly implementing an estate tax plan.*

At its core, an estate plan is a living document. Business owners, such as ranchers, develop an estate plan to provide a step-by-step outline of ongoing actions that secure and transition assets to the next generation. Unfortunately, estate plans are sometimes treated as "break-in-case-of-emergency" documents — developed with the best of intentions and then left unattended. Ultimately, the plan loses effectiveness.

Implementation of a completed estate plan seems inevitable. After all, the individual who initiated the plan recognized the need for such a document, and spent time and financial resources on its development. However, C. Beth Roberts has seen well-constructed estate plans slip into obscurity from inaction.

"A plan sitting on the corner of a desk or locked away in a safe is a lot of wasted time and money," says Roberts, who has been a Registered Financial Consultant for 25 years, and is a registered representative with Lincoln Financial Advisors and a member of the Texas and Southwestern Cattle Raisers Association (TSCRA).

Implementation begins at the end of the development phase of the estate planning process, when the legal documents are drafted by attorneys and tax professionals. Roberts encourages her clients to read each document paragraph by paragraph so they fully understand every facet.

"If I have done my job properly, I have educated you on every part of the plan," she says. "If you are estate planning and you are not clear about any aspect of the plan then do not move forward until you have clarification."

Once a business owner is confident in the framework of the plan, he or she will begin implementing the outlined steps. Often an estate plan will require the individual to re-work wills and trusts, as well as purchase investments and insurance policies.

"We encourage people to get their plan set as soon as possible," Roberts says. "However, we also suggest allotting yourself several months to implement the necessary changes. It is better to be thorough than to rush. Again, you must make sure to read and understand every legal document."

The implementation phase also includes opening a dialogue with family members or partners who will be directly involved in receiving assets. Roberts recommends that individuals or couples not involve [adult] children during the initial estate planning process, instead allowing the estate planner to work without distractions. When the next generation is finally included in the conversation during implementation, Roberts suggests that only the children, and not their spouses, be involved in the conversation.

"Spouses usually complicate the situation," she said. "Parents usually do not want the influence of the spouses in the room."

Of course, there is the potential that the child may not have a spouse, be through college or even eligible to inherit property. Estate planners must take extra steps to properly ensure passing their estate to children younger than 18 years old, who cannot legally inherit assets.

Roberts also suggested that the financial guardians be kept separate from health care guardians. "It is wise to keep them independent of each other," she says. "If you have a sister and she passes away and you become the guardian for your niece in all matters, it means you, as the guardian, may get something while the niece does not. It's best to have someone else handling the financial matters."

MORE

Arthur Uhl, a TSCRA director and chairman of the TSCRA Legislative and Tax Committee, specializes in estate planning for those in the agricultural industry. Uhl explains, while the family dynamic can complicate the estate planning process, the process can also benefit the family.

"It is difficult to go through sometimes, but it usually ends up being helpful in the long run," Uhl says. "It forces the family to sit down and have a discussion about how the property, usually a ranch, will be run in the future. When the family focuses on what is best for each other and thinks about how much money could be saved by going through estate planning, they are usually motivated to get it done together."

Uhl suggests owners of small farms and ranches that do not meet the tax threshold have the estate planning discussion. "The process is helpful," he says. "Even if you don't have to develop a family partnership and trusts, just going through the discussion is ordinarily a huge step in the right direction."

Implementation of the estate plan may also include some form of annual gifting, which allows the business owner to slowly shift assets to the next generation free of a tax burden.

Every year, an individual can give $13,000 worth of property to anyone and be exempt from the gift tax. The owner must prove the value of the property, which usually includes the need for appraisals. This gifting process takes additional time, expense and personal dedication. "This is not a practice that most people have done on an ordinary basis," Uhl says. "It takes some discipline to do things like this every year, but in the long run it is worth it."

Both estate planning experts, Roberts and Uhl, say that property owners can modify and update their estate plan through the years. "It's better to change plans," Roberts says, "than be caught without one."

In extreme situations, such as a diagnosis of a fatal disease that requires immediate action, business owners with no estate plan in place will face penalties when they transfer assets.

"You cannot do things in anticipation of death," Roberts said. "If you are moving assets quickly, the IRS will get you." However, if the individual has a documented estate plan — even one that is not fully completed — he or she will be covered in most cases.

While estate planning remains a complex and sometimes difficult subject to discuss, both Roberts and Uhl see it as an absolute must for ranchers. In fact, both experts have the same final piece of advice — don't wait to begin an estate plan.

"The worst thing they can do is put it off," Uhl says. "People have put it off and then something happens. It costs them millions of dollars. They are forced to mortgage the ranch or come up with cash to pay the estate tax. People have lost the family ranch because of estate taxes."

Roberts echoes Uhl's sentiment with a final question for all those considering estate planning, "If you've taken a lifetime to accumulate your wealth, why not take a year to put in place a plan that will keep it in the family?" ■

Notes

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Speaker:

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PROPERTY RIGHTS AT THE RANCH LEVEL

Zach Brady

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March 22, 2013

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- Premises Liability
- Oil and Gas Leasing
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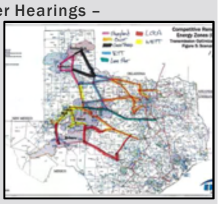

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CONDEMNATION

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- Seismic Test Leasing

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SURFACE RIGHTS AND DAMAGES

- Surface Users
  - Grazing Lease
  - Farming Lease
  - Hunting Lease
  - Oil and Gas Lease
  - Wind Lease
- Surface Damages – Who's Responsible?
- Surface Easements

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GRAZING LEASES

- Lease Terms
  - Price
  - Acres
  - # Head allowed
  - Length and Termination
  - Assignment
  - Other activities allowed
  - Prohibited activities
  - Property Damages and Indemnification
  - Insurance

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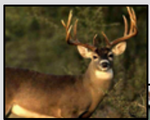
HUNTING LEASES

- Lease v. License
- Landowner Goals; Hunter Goals
- What to Include?
  - Duration of Lease Term
  - Activities Allowed
  - Describe Lease Tract
  - Access to Leased Portion
  - What Game is Game?
  - Shotguns, Bows, or Muzzle-Loaders
  - Hunting Method
  - Guests
  - Liability and Release
  - Price and Payment
  - Use of Facilities
  - Vehicle Use
  - Cleaning Game
  - Gates and Keys



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ECOTOURISM/AGRITOURISM

"Agritourism": What is it?

- Four basic concepts:
(1) Combines the essential elements of the tourism and agriculture industries;
(2) attracts members of the public to visit agricultural operations;
(3) designed to increase farm income; and
(4) provides recreation, entertainment and/or educational experiences to visitors.
- Benefits vs. Increased Liability Risks

- "Nature Tourism" – Texas A&M AgriLife Program
http://naturetourism.tamu.edu/agritourism/

- Some Liability Protection via Agritourism Statutes
  - Oklahoma
    - Create agritourism fund
    - Liability limitations for livestock shows and other livestock activities

- Lawsuits Challenging Protection

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OTHER RECREATIONAL USE

- ATV Fun
- Fishing Holes and Kids
- Hogs and Helicopters

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WATER RIGHTS

- Clean Water Issues
  - TCEQ, Nonpoint Source Program
- Water Supply Issues
  - Drought
  - Production and Use Limits
  - Water Re-use
- Water Use/Ownership Issues
  - Surface Water
  - Ground Water

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SURFACE WATER ISSUES

- Surface Water
  - Texas holds title
  - Water Permits for use
    - Exceptions:
      - Domestic and Livestock
      - Wildlife Management
      - Emergency Use
      - Others
  - Types of Water Rights
    - Perpetual Rights
      - Drought Issues - LCRA
    - Limited Term Rights
  - Enforcement:
    - Honor System
    - Watermaster

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Groundwater Ownership

- Rule of Capture with Recognized Exceptions
  - Edwards Aquifer Authority
  - Groundwater districts.
  - Underground river exception
  - Underflow of a surface watercourse.
  - Malicious pumping.
  - Subsidence exception.

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GROUND WATER ISSUES

Groundwater Districts

- Chapter 36
- Board Rule-Making Authority
- Registration
- Domestic and Livestock Wells
- Production Permits
- Production Limits
  - Innovative Solutions
- Future of GCDs
- 2013 Legislative Proposals
  - SB 272 and SB 302

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GROUND WATER ISSUES

THANK YOU

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Questions