

Vermont Farm Viability Enhancement Program

2007 Guidelines for Year Two Farm Viability Evaluations

The Vermont Farm Viability Enhancement Program is interested in having its participant organizations conduct year two evaluations of farms that have completed business plans the previous year under the Farm Viability Program.

On-Farm Visit

Year two follow up evaluations should include at least one on-farm visit by a farm business planner, farm financial analyst, farm management specialist, or other person who is qualified to collect and analyze the required data. The analyst should visit with at least one of the farm's principal owners or managers (preferably with all). The follow-up visits should be scheduled to occur approximately one year following completion of business plans, so that the analysis can be based on updated financial statements.. The purpose of the on-farm visit is:

- (1) To measure profitability
- (2) To measure productivity
- (3) To ascertain quality of life issues
- (4) To collect information on implementation of the business plan
- (5) To determine the farm's on-going business planning and technical assistance needs
- (6) To help the farmer fill out a Farm Viability evaluation survey, if he or she has not already done so

Data Collection

The Farm Viability Program is interested in both quantitative and qualitative data, to the extent that it can be gathered in one visit. Anecdotal information that qualifies the data or paints a more complete picture of the farm situation is also important to document. Actual methodology for collecting and analyzing the data may vary from farm to farm, therefore the following should be viewed as a guideline only.

A. To measure PROFITABILITY, the analyst should perform the following calculations based on the most recent balance sheet and income statement:

- (1) Calculate the Net Farm Income From Operations (NFIFO) as follows: Gross Farm Revenue excluding gains or losses from the disposal of capital assets, minus Total Farm Expenses Including Depreciation and Interest.
- (2) Calculate the Rate of Return on Farm Assets (ROA): NFIFO, plus Farm Interest Expense, minus Operator Management Fee, subtotal of these three is then divided by Average Total Farm Assets for the year.
 - For a farm that is mostly owned, a ROA of greater than 5% indicates good profitability; between 1% and 5% indicates only fair profitability, below 1% indicates poor profitability. The ROA should be compared to the previous year's ROA.
 - For a farm that is mostly leased, a ROA above 12% is good, between 3% and 12% is fair, and below 3% is poor.
- (3) Calculate the Rate of Return on Farm Equity (ROE): NFIFO, minus Operator Management Fee, subtotal divided by Average Total Farm Equity for the year.

- Look at trends and compare to other farm and nonfarm investments. In general, greater than 10% is good, 0% to 10% is fair, less than 0% is poor. Compare to previous year.
- (4) Calculate the Operating Profit Margin Ratio: NFIFO, plus Farm Interest Expense, minus Operator Management Fee, subtotal divided by Gross Farm Revenue.
- Greater than 25% is good, 10% to 25% is fair, and below 10% is poor. Compare to previous year.

B. PRODUCTIVITY should not be confused with profitability. Nevertheless, various productivity indicators can help measure a farm's progress toward its business goals. At least one, and ideally two or three, productivity measurements should be collected. Pure production records, such as pounds of milk produced, or units of crops harvested or sold, can be a good starting point. From there the analyst should try to calculate some measure of production efficiency.

For dairy farms on DHIA, the most recent 305-day Rolling Herd Average (RHA) for milk, fat, and protein may be an appropriate benchmark to compare against previous averages. Another useful measure from DHIA records is Income Over Feed Costs. Other productivity measures from DHIA may have significance for those farms that had identified these measures as business plan goals.

For dairy farms not on DHIA, a rough herd average can be calculated by dividing pounds of milk sold per year by average number of cows in the milking herd. Net income per cow can also be calculated from the farm's financial statements, and estimates of yearly cow numbers.

For vegetable farms, gross sales (or better yet, net revenue) by product category should be recorded, and compared to the previous year. General categories might include vegetable seedlings, vegetables, berries, and ornamentals.

Also for vegetable farms, gross sales (or net revenue) by market should be recorded and compared to previous year. Market categories could include farmers' market, prepay membership (CSA), farm stand, restaurants, and wholesale.

C. To ascertain QUALITY OF LIFE issues, the analyst should first determine if any quality of life problems or goals were identified in the business plan. If so, the analyst should initiate a discussion focused on those particular issues. In doing so, the analyst may learn of other quality of life factors affecting the overall viability of the farm business. Areas of discussion could include any or all of the following:

- (1) General health of primary farm operators
- (2) Does the family have adequate health insurance? Disability insurance?
- (3) Human resource issues—Has there been a problem retaining qualified farm labor?
- (4) Are the operators implementing any retirement savings plan?
- (5) How will children's education, particularly college expenses impact the farm's finances?
- (6) Time management/burnout—Have the operators been able to take a vacation?
- (7) Family living expenses—Is cash flow adequate to support family living without borrowing from farm equity?

D. Collect information on the IMPLEMENTATION OF THE BUSINESS PLAN by asking what elements have been completed. Did the implementation go as planned? If not, has there been a change of plans? Are there obstacles to implementation of the plan? If financing was involved, did the business plan aid in securing the financing? How have the changes affected short-term goals, cash flow, production goals, etc. Have the business changes helped the farm in achieving its long range goals? What new issues have arisen as a result of the changes?

E. Ask if the farm has ON-GOING NEEDS in terms of business planning and technical assistance. If so, determine what kinds of assistance would be most appropriate. Are these needs follow-ups to the assistance given by the Farm Viability Program, or are the on-going needs in new areas of expertise? Have other agencies, organizations, or private consultants been utilized since the time of the Farm Viability business planning?

F. If the farm did not fill out a Farm Viability EVALUATION SURVEY after completion of business planning, ask if the form could be filled out at the end of the on-farm visit. The completed form can then be collected by the financial analyst and forwarded to the Viability Program Coordinator. Ask the Coordinator for blank copies of the survey form.

Year Two Evaluation Written Reports

After the on-farm visit, the analyst should write a written report summarizing the findings. The report should list who was present, date, place of meeting, etc. Each of the data categories should then be addressed in some fashion.

All information gathered should be treated as strictly confidential. Although the Farm Viability Program will keep copies of the evaluation reports on file, they will not be subject to the Vermont Public Documents law, and will be available for inspection only at the Vermont Housing and Conservation Board offices by Farm Viability Program staff, and upon request, by selected Agriculture Agency staff, and selected representatives of the USDA Natural Resources Conservation Service, who will also observe confidentiality protocol.