Economic & Policy Update
E-newsletter Volume 24, Issue 7
Editors: Will Snell & Nicole Atherton
Department of Agricultural Economics
University of Kentucky

What to Do When You Don’t Have Enough Money

Author(s): Kayla Brashears

Published: July 30, 2024

Several years ago, I wrote an article for the Economic & Policy Update, “What to do When You Have Too Much Money.” We’re having a full circle moment due to the volatility of the agriculture industry as Kentucky farms are experiencing a slide in profitability from the booming 2020, 2021, and 2022 crop years. Many of the farms I work with are feeling pressured as their working capital has been cut in half (or worse). Understandably, seeing a negative net farm income in 2023, or the ceiling of your operating line approach as the stack of bills on the desk grows is panic inducing. It’s important to remain level-headed as the farm enters a season of tightening cash flow. I’ve outlined a few actions below to help.

Develop a Monthly Cash Flow

A dire position a farm never wants to find themselves in is realizing they do not have the cash on hand to make the week’s payroll. This is a BIG problem and must be avoided at all costs. You must be aware of the cash you have available to meet your immediate obligations. Develop a list of your expected costs each month and order them from rigid to flexible. Some obligations are rigid: payroll, utilities, many services. Others may have more flexibility, like allowing you to make a minimum payment or even shift the payable to a longer financing term – crop and feed input suppliers are an excellent example of this. They will often allow a farm to make a minimum payment on their payable until the crop comes in. On the income side, include a prediction for all avenues of income. Livestock sales, crop sales, patronage dividend, rents, etc. Do the math to be sure you will have the cash on hand to meet your obligations.

Manage Your Expenses

Despite years of planning and attempts, farmers haven’t developed a way to manipulate the weather or commodity markets to their whims. They can, however, manage their expenses with more precision. When funds are tight, careful evaluation of crop fertility plans, maintenance schedules, labor needs, and all other operations are necessary. It takes an experienced farmer to develop a plan. It’s possible to starve your profit by skimming on fertilizer, as an example. A focus on efficiency is important, and a harder look may reveal easy to achieve methods that could save you serious cash. Be proactive about collecting settlement checks to stop the interest on the operating line of credit. Utilize floating accounts to buy yourself an interest-free 30 days. Repair your cattle chute instead of buying new and review your insurance policy to be sure you aren't paying insurance on equipment you sold three years ago (it happens!).

Educate Yourself on Options

If you've reduced expenses and developed a cash flow, and the numbers are coming up short, it's time to explore your options. One of the most common cash flow solutions, refinancing, may be off the table due to rising interest rates, as KFBM specialist Jennifer Rogers addressed in her article, "Interest Rates and Refinancing." A refinance is worth exploring with your banker because every situation is unique and there may be an option for you. Other options include pursuing off-farm income to alleviate demands of the farm for family living expenses, or even asset liquidation. Every farm has different resources, and it's best to speak with a neutral third party like your accountant or KFBM specialist to help you navigate your situation.

Be Honest with Yourself and Your Lenders

Farms have been through the cycle of drastically reduced farm income for, literally, decades. Those that survived it never tried to run from it. A down year, a failed marketing plan, record-breaking submerging rainfall, or a late, crop-stunting freeze are not markers of a poor farm manager. The belief that only bad farmers experience cash flow problems could prevent you from seeking the help you need to correct the problem. The bank wants to see you remain profitable and pay your debt obligations. If you are upfront about your liquidity issues, they may be able to help or, at a minimum, offer understanding until the ag industry improves and your problems ease. Plummeting commodity markets, significant weather events, and input inflation are intimidating problems. But – you do not have to face them alone.

Recommended Citation Format:

Brashears, K. "What to Do When You Don't Have Enough Money." *Economic and Policy Update* (24):7, Department of Agricultural Economics, University of Kentucky, July 30, 2024.

Author(s) Contact Information:

Kayla Brashears | kayla.brashears@uky.edu