

AgUpdate

Timely information for a select group of farm owners and investors

Summer '18

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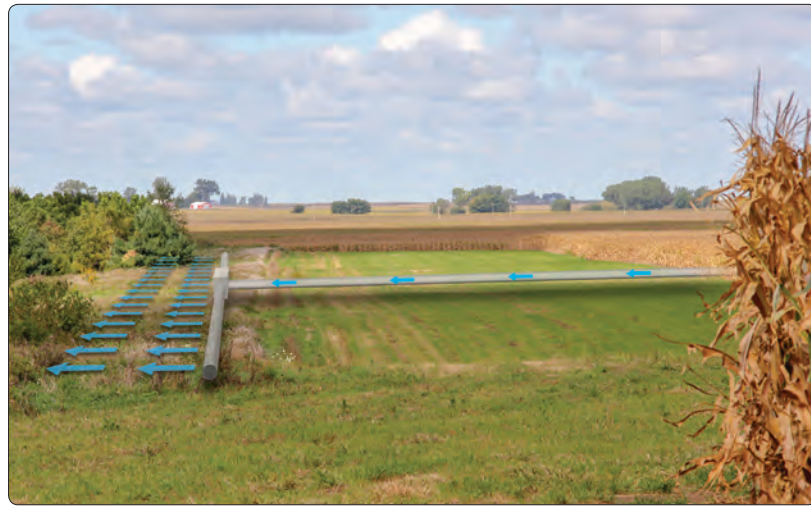
Revisiting the Roadman's

Last Summer, when we talked with Larry Roadman and his family, they were in the early stages of a new conservation program. Today, that program has proven to be successful in the family's quest for good stewardship.

Ever since John and Lusetta Roadman settled into their Grundy County Iowa farm in the 19th century, the family has put a special emphasis on being good stewards of the land. Today, that legacy continues with Keene and Christian Roadman (John and Lusetta's great-great-grandsons), as they have taken ownership and responsibility for the farm.

Saturated Buffers

In 2016 and 2017 Keene and Christian Roadman along with their farm manager Morgan Troendle, partnered with Dan Jaynes with USDA, Tall Grass Prairie Center at the University of Northern Iowa and Iowa State University (ISU) in piloting some conservation research programs. The Saturated Buffer program they implemented has proved to



The saturated buffer is located 2 feet below the surface and distributes water from field through a vegetated area, removing nitrates before it enters the stream.

"Today, that program has proven to be successful in the family's quest for good stewardship."

be worthwhile for the Roadmans.

With tile drainage, excess nitrates and phosphates can sometimes be carried off the fields into ditches, streams, and rivers, especially in early spring after the first major rain event. While these nutrients are a natural part of aquatic ecosystems, too much entering the environment at once can have negative effects such as excessive algae growth.

One possible solution to this issue is utilizing saturated buffers.

According to the United States Department of Agriculture (USDA), a saturated buffer is a subsurface perforated distribution tile used to divert and spread drainage system discharge to a vegetated area. By utilizing saturated buffers, a portion of the drainage water is diverted into lateral drainage tile

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“...almost all (98%) of this nitrate was removed in the saturated buffer.”

installed along the buffer. This helps to increase shallow groundwater level and provide effective nutrient removal. Essentially, it diverts flow into a buffer of growing plant/tree root systems that absorbs nutrients before they can enter streams and other water sources.

The Roadman's had a saturated buffer installed on their farm, and the data shows the buffers have been well worth it for the family.

Continued Improvement

Figure 1 shows the results of the Roadman saturated buffer near Dike, Iowa for 2017. The graph shows the flow rate (solid line) in the field tile as it is entering our control box located in the buffer. This site tends to flow most of the year even though the 2nd half of 2017 was dry statewide. The green diamonds are the nitrate concentration within the adjacent creek on the days USDA representatives visited the site. These concentrations ranged from about

2 to 14 mg-N/L of nitrate. The gold squares are the nitrate concentrations in the field outlet. They were very similar to the concentrations in the stream except during July and August when stream nitrates were low due to in-stream nitrate removal processes (algae growth etc.).

“The information shows what we would expect, the nitrate levels are equal to or slightly higher than stream levels due to the direct route the water travels through the tile to the stream,” explains Farm Manager Morgan Troendle. “With 10 mg nitrate level being the standard threshold for drinking water safety, the ideal levels would be below this on a long-term average. That's where the next graph of results help to show the benefit of the buffer.”

Figure 2 shows the cumulative pounds of nitrate that were in the field tile drain (blue line), the amount of this nitrate that was diverted into the buffer by the control structure (green line), and the pounds of nitrate that were removed in the

saturated buffer (gold line). At this site, about 80% of the nitrate from the field tile was diverted into the buffer and almost all (98%) of this nitrate was removed in the saturated buffer. The total nitrate removed was 378 pounds of N. This is nitrate that would have otherwise discharged into the stream. Undoubtedly, the saturated buffer also removed nitrate before measuring flow began in June, but the amount was notable to be measured.

This information shows that the water diverted into the buffer enters the stream with a much lower average nitrate concentration which in turn, contributes to reducing the stream's overall concentration to a more reasonable level on average. Essentially, the saturated buffers are working exactly the way they are supposed to, not solving the entire problem but helping to make a small reduction which when combined with additional conservation efforts from others, helps to improve water quality incrementally.

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Figure 1

Flow and nitrate concentration

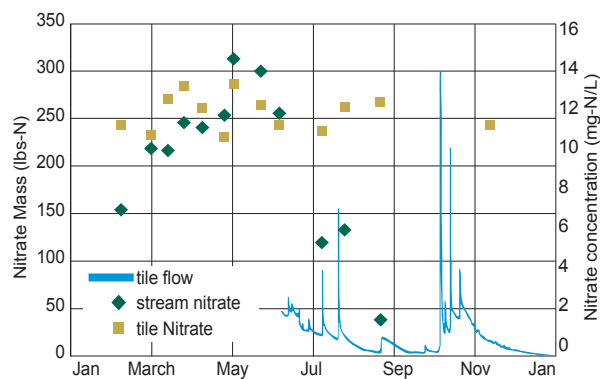
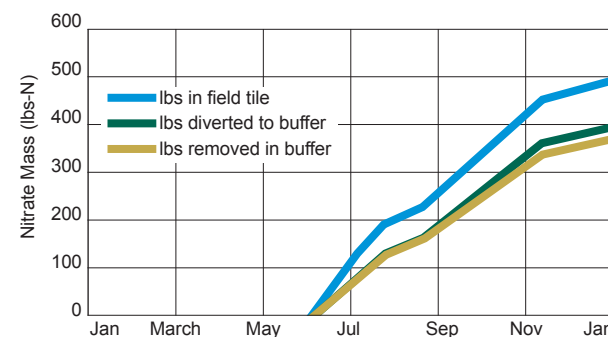


Figure 2

Nitrate in tile, diverted to buffer and removed in buffer



Hertz Professionals Update

Austin Hornstein

Austin joined Hertz Farm Management in June 2018 in Geneseo, IL. He grew up on a farm in rural Melvin, IL, about two hours from Geneseo. Austin is a graduate of Illinois State.



Austin Hornstein



Carrie Seidel



Craig Welter



Matthew Vegter

Carrie Seidel

Carrie Seidel joined Hertz Farm Management in April of 2018 as a farm manager out of Mason City. She joins Hertz after being a District Sales Manager in Northeast Iowa for Wyffels Hybrids for the past 4 years. Carrie is a graduate of Iowa State.



Samuel Zach



Mike Krause



Tim Fevold



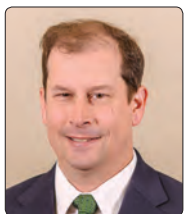
Kyle Hansen

Craig Welter

Craig joined Hertz Farm Management in June 2018. He grew up on a diversified crops and livestock farm in Eastern Iowa, just outside Monticello where he helped raise cattle, contract finish hogs, and grow crops. Craig is a graduate of Iowa State.



Kirk Weih



Chad Hertz



Eric Wilkinson

Matthew Vegter

Matt Vegter joined Hertz Farm Management and Real Estate Services in February of 2018 as a licensed real estate salesperson in the Nevada, Iowa office. Matt is a graduate of Central College.

Samuel Zach

Sam Zach joined our Norfolk, NE office in May 2017, after completing an internship with the company the summer before. Sam is a graduate of Nebraska.

Mike Krause

Mike Krause is immediate National Past President of the American Society of Farm Managers and Rural Appraisers (ASFMRA).

Tim Fevold

Tim Fevold will be the National President of the American Society of Farm Managers and Rural Appraisers in 2019.

Kyle Hansen

Kyle Hansen is the current Vice President of the National Realtors Land Institute (RLI)


Kirk Weih

Kirk Weih is the current President of the Iowa Chapter of the Realtors Land Institute (RLI).

Chad Hertz

Chad Hertz is the current President of the Iowa Chapter of the American Society of Farm Managers and Rural Appraisers (ASFMRA).

Eric Wilkinson

Eric Wilkinson is the immediate Past President of the IL Society of Professional Farm Managers and Rural Appraisers (ISPFMRA). 

To learn more about all of our Hertz Professionals, visit our website, www.Hertz.ag



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“Two of the main changes ... were the lowering of personal tax rates and the raising of the standard deduction.”

The New Tax Bill

Jeff Troendle,
President of Farm Management

Our newest tax bill started out in the House as “House Resolution 1 (H. R. 1) Tax Cuts and Jobs Act”. The Senate however, didn’t feel that was descriptive enough, so it was renamed “An Act to provide for reconciliation pursuant to Titles II and V of the current resolution on the budget for Fiscal Year 2018.” Is it any wonder why it takes a long time to get things done in the legislature???

Regardless of the name, the bill was passed on December 22, 2017, and then signed into law. Two of the

main changes that affected every taxpayer were the lowering of personal tax rates and the raising of the standard deduction. The new tax rates for Individuals and for Married Filing Jointly are shown below:

The Standard Deduction for individuals was raised from \$6,350 to \$12,000 and for couples from \$12,700 to \$24,000, or almost double. While this was a great benefit, as with many benefits from new legislation, we gave something up to get something new. What was given up was the personal exemption of \$4,050 per person in 2017, leaving the net effect from

the increased Standard Deduction at roughly \$1,500 for individuals, and \$3,000 for couples. In addition, several itemized personal deductions were either lost or limited. These include the following:

1. Limits the combined deduction for real estate, sales and state income taxes to \$10,000
2. Eliminates
 - a. Unreimbursed Employee expenses
 - b. Tax Preparation
 - c. Safety deposit box rental
 - d. Hobby expenses
 - e. Investment fees and expenses
 - f. Legal expenses
 - g. Moving expenses (except for Armed Forces)
 - h. Donations in exchange for collegiate sporting event seating.
 - i. Deductibility of interest on home equity loans

The bill did leave in place the ability to make charitable donations directly from your IRA without including it in your income, for those 70-1/2 or older.

With the above changes, tax preparation for many will become much simpler, as a high percentage of taxpayers will no longer benefit from itemizing deductions and will choose to utilize the new, higher Standard Deduction.

Married Filing Jointly Income Tax Rate

Current Law:	H.R. 1:
\$12,700 joint standard ded.	\$24,000 joint standard ded.
10% above standard ded.	10% above standard ded.
15% starting at \$18,650	12% starting at \$19,050
25% starting at \$75,900	22% starting at \$77,400
28% starting at \$153,100	24% starting at \$165,000
33% starting at \$233,350	32% starting at \$315,000
35% starting at \$416,700	35% starting at \$400,000
39.6% starting at \$470,000	37% starting at \$600,000
	Rates and brackets sunset 12/31/25

Individual Income Tax Rate

Current Law:	H.R. 1:
\$6,350 single standard ded.	\$12,000 single standard ded.
10% above standard ded.	10% above standard ded.
5% starting at \$9,525	12% starting at \$9,525
25% starting at \$38,700	22% starting at \$38,700
28% starting at \$93,700	24% starting at \$82,500
33% starting at \$195,450	32% starting at \$157,500
35% starting at \$424,950	35% starting at \$200,000
39.6% starting at \$426,700	37% starting at \$500,000

Changes that have a more direct effect on farm businesses include:

1. Changing the corporate income tax rate to a flat 21% from variable rates ranging from 15% - 35%. This will be an advantage for C-Corps with incomes in excess of \$62,000. For those under this amount, the new rate will actually be a tax increase.
2. Rates for Irrevocable Trusts and Estates were raised significantly, hitting 35% at \$9,150, and 37% at \$12,500 of income.
3. Section 1031 like-kind exchanges were ended for livestock and equipment but remain in effect for Real Property.
4. Bonus Depreciation was raised from 50% to 100% and extended to used as well as new property and equipment. This deduction will be available under any lease type. The deduction will ratchet down 20% per year after 2022.
5. Section 179 Deduction was increased from \$510,000 to \$1,000,000. Still restricted to materially participating leases.
6. A deduction of 20% of business income before capital gains is available to individuals with incomes under \$157,000 or married couples below \$315,000 of income that own a business (including a farm business) either as a sole proprietor, or through a pass-through entity such as a partnership, S-Corp, or LLC. The deduction does not appear to apply to cash rent leases, but a definitive determination has not been made yet. For those over the above income thresholds, the deduction phases out, or has to be met through a percentage of wages paid.
7. A 20% deduction for coop members, on grain sold, was also part of the bill, but due to an outcry by non-coop grain buyers, feeling that coops were handed an unfair advantage, this portion of the bill was

changed and has made the deduction detailed in #6 above more complicated to calculate.

8. Net operating losses can only be carried back 2 years instead of 5 and is limited to 80% of taxable income. However, losses can now be carried forward indefinitely.

On the estate planning side, the combined lifetime gift and estate tax exemption has been increased from \$5,600,000 for 2018 to \$11,200,000 per individual. Portability, or the ability for the second spouse to utilize any portion of the exemption not utilized by the first spouse to die was retained, along with stepped-up basis for assets that pass through an estate. This increased exemption does not change the importance of succession planning but does add additional flexibility to the process.

As with any new law, there are pros and cons, but overall, the tax bill should be positive for farm business owners. 🏡

***“over-
all, the
tax bill
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Valuable Partnerships

In addition to conservation improvements, there have also been valuable new partnerships that have come out of the conservation projects, including new opportunities for continued education for other landowners.

“The individuals and organizations involved in these projects have all brought a unique specialty, skill, or asset to the table to provide real results. The relationships built through the project have opened opportunities for additional projects and partnerships to help expand the network of data and educational opportunities for other landowners who are

interested in making conservation improvements on their farms.”

“Our greatest enjoyment has been in the relationships built and the concrete, measurable results we have seen as a result of these partnerships,” says Larry Roadman on the overall experience the last few years. 🏡



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Farmland Value Update

Doug Hensley, President of Real Estate Services, Nevada, IA

“Both farmers and farmland investors are active in today’s market...”

As we approach the 2018 growing season, the Midwestern farmland market remains stable. The highest quality farms from a production standpoint (e.g., highly productive soils, solid fertility and drainage, and high ‘farm-ability’) continue to sell well and out-perform those farms with poorer soils, waterways or other obstructions. Both farmers and farmland investors are active in today’s market, although farmers are the more prevalent buyer. Low interest rates over recent years, generally good crop yields in both 2016 and 2017, and a limited supply of farms being offered for sale, are all supporting our current farmland market.

With that said, some market observers believe the price of Midwest farmland has been very resilient, as there are also some negative influences that are pressuring rural land values. Low commodity prices throughout much of the past 3 to 4 years, combined with weak on-farm profitability, has continued to keep a lid on Midwest land values. In addition, interest rates are beginning to creep higher, as the American economy has recovered over the past decade and the Federal Reserve has started raising short-term interest rates to address inflationary pressures.

On a state-specific basis, there are some minor contrasts in recent results, with local factors playing a role.

Iowa Farmland

The Iowa Chapter of REALTORS® Land Institute released its March 2018 Land Trends and Values Survey, which showed a statewide average increase of cropland values of 2.9% for the September 2017 to March 2018 period. Combining this increase with the 2.0% increase reported in September 2017 indicates a statewide average increase of 4.9% from March 1, 2017 to March 1, 2018.

Factors contributing to current stability in farmland values include: slightly higher commodity prices in early 2018, a limited amount of land on the market, higher than expected yields in recent years, and a lack of attractive and/or stable alternative investments. Factors pressuring values include: tight operating margins, closely guarded working capital, and increasing interest rates.

Illinois Farmland

The Illinois Society of Professional Farm Managers and Rural Appraisers (ISPFMRA) recently announced the results of its 23rd annual survey, which shows that the price being paid for “Excellent” quality farmland trended 2% lower for the calendar year ending December 31, 2017.

Factors noted in the report as most likely to cause further farmland price declines in 2018 include: falling commodity prices because of good 2018 growing conditions on a widespread basis in the United States, increases in interest rates, elimination of ethanol mandates, and reduction in commodity demand because of slowing China growth. Potential factors that could cause

farmland prices to increase in 2018 include: increased commodity prices because of poor 2018 growing conditions in the United States, high yields leading to improved 2018 incomes, and good economic growth in the United States.

Nebraska Farmland

A summary report from the Ag Economics Department at the University of Nebraska-Lincoln reflects a decline in statewide agriculture land values. The average market value of farmland in Nebraska declined by 3% percent, according to the early 2018 report. This marks the fourth consecutive year of downward pressure, although the rate of decline has slowed when compared to recent years.

The survey showed the largest percentage change in tillable grazing land values, at -6%; followed by weakness in dryland and irrigated cropland, at -1% to -7%, respectively. Low commodity prices and current property tax policies in Nebraska, were indicated by survey participants as major forces leading to land value declines.

Future

As we consider the future for Midwestern farmland values, both for the remainder of 2018 and beyond, we should be mindful of several factors that impact and drive underlying farmland prices. First, pay close attention to commodity prices. A strong commodity price environment will generally be supportive to farm incomes, and therefore, farmland values. Second, take note of interest rates, both in

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Grain Markets

Steven Fish, Farm Manager, Licensed Real Estate Salesperson - NE, Norfolk, NE

How did the corn and soybean markets get to this point and where do they go from here? During March and April, the markets had surprising gains which were not anticipated as we went through the winter months. The grain markets were depressed after harvest due to a 5th record year of production resulting in grain stocks that surpassed demand. Record 2012 grain prices resulted in increased acreage in the US and in the world. With increased acreage and favorable weather, 2013-2017 corn production in the US has ranged between 13.6 – 15.1 billion bushels. The previous high production mark was 13.1 billion bushels in 2009. Beans have also had record production numbers the past 5 years in a row in the US. Without some fundamental change, it was believed the corn and bean markets would struggle to move higher.

The first fundamental change realized was a drought in Argentina that decimated their crops and started a rally in the markets. The March 29 USDA Prospective Planting report showed lower than expected acres of corn and soybeans to continue the rally into April. Corn acreage was estimated at 88.0 million acres, down 2% from last year, and soybean acreage was estimated at 89.0 million acres, down 1% from last year. The bullish planting intentions,

decreased production in South America, record soybean processor profits, and strong demand have all contributed to a \$.40 rally in the corn market and nearly \$1.00 in the bean market since January.

Potential bearish factors to consider moving forward are trade concerns with China and NAFTA. A large portion of grain exports in the US are with Mexico, Canada, and China. The renegotiating of trade deals undoubtedly creates uncertainty in the market. Only time will tell on what effects this may have on the market going forward.

In a statement released by Randy Hertz,

China's Ministry of Trade announced a new 25 percent tariff on U.S. goods including corn, soybeans, beef, pork, ethanol, cars, and chemicals in response to ongoing threats from the Trump Administration to impose tariffs on Chinese products for intellectual property theft. At the same time, Brazil announced a 37 cent per bushel surcharge on soybean exports.

The announcement created an early selloff in U.S. markets amid emotional fears of an all-out trade war between China and the U.S. In early trading April 4th, the Dow Jones Industrial Average fell 300+ points, soybeans dropped 50+ cents, and corn dropped 20+ cents before rallying and retracing losses.

"Fortunately, the tariff does not go into effect immediately. There is time for both the U.S. and China to negotiate and work out the trade situation. Emotions run high. Many times the initial reaction to bad news is worse than the actual impact realized." -Randy Hertz, CEO Hertz Farm Management Inc.

China is the largest soybean importer in the world, importing 60 percent of world soybean exports. The United States exports 50 percent of their soybean production, which translates to 30 percent of the soybeans produced in the U.S. going to China.

The long-term impact on land values is uncertain. The value of farmland is determined by many factors with the future benefits and perceived benefits driving current values. The United States feeds a hungry world, and farmland is used to produce the food, feed and fiber consumers demand.

Though there are many factors that play into the day to day volatility in the markets, we at Hertz believe it's important to take a balanced approach to grain marketing and not get caught up in the day to day emotions of the market. By taking a balanced approach we believe we can create accurate representations of fair market value and capture opportunities the markets present. 📈

"... it's important to take a balanced approach to grain marketing ..."

...continued from pg. 6, [Farmland Value Update](#)

regard to interest rate levels, and the direction and volatility of movement in rate trends. For several years the US marketplace has enjoyed an extended period of ultra-low rates, and this rate environment has been very supportive to farmland

values. Should the rate environment trend appreciably higher, this will signal a pressure/threat to the farmland markets. Finally, US trade policy will continue to play a role in our underlying farmland markets. Strong trading partner

relationships feed growth and create a natural confidence in our markets, while shaky trade relationships lack the stability we all crave and keep markets on edge. 📈



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Landowner Educational Seminars Summer 2018 Schedule

All landowners are invited to attend one of a series of Summer seminars. Our seminar topics will include Grain Markets, Farm Lease Trends/Leasing Alternatives, Land Trends & Values, Improving Value/Productivity and Tax/Succession Planning.

If you are planning for the next generation, you're encouraged to invite your children to attend with you.

Seminar Online Registration
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- Contact:
Denise Vallandingham
Phone: 1.800.593.5263
E-mail: DeniseV@Hertz.ag
- Mail the enclosed postcard

Dates & Locations



All seminars will be from 8:30 a.m.-3:15 p.m.

July 26, Ankeny, IA
July 31, Cedar Rapids, IA
August 1, Fort Dodge, IA
August 1, Rock Island, IL

August 1, Monticello, IL
August 2, Ames, IA
August 2, Bloomington, MN
August 2, Bradley, IL

August 3, Mason City, IA
August 9, Omaha, NE