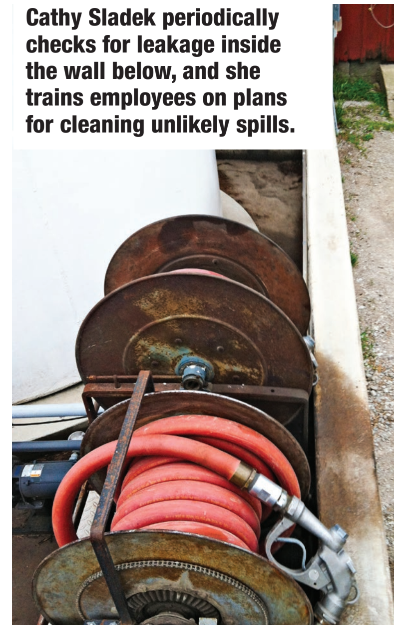
MANAGING YOUR FARM

By Dan Looker, Business Editor

Jim Sladek (right) and farm manager Jeremiah Murry stand at a wall that holds 110% of one tank's fuel.



Cathy Sladek periodically checks for leakage inside the wall below, and she trains employees on plans for cleaning unlikely spills.

DEALING WITH SPILL PREVENTION

SHOULD YOU COUNT ON CONGRESS TO PROTECT YOU FROM AN UNPOPULAR EPA RULE?

EPA ranks right down there with IRS as the acronym least popular on most farms and ranches. Here's another: SPCC. It means spill prevention, control, and countermeasure plan. The EPA wanted you to have one by last May 10, if your farm has more than 1,320 gallons of combined storage capacity for diesel fuel, gasoline, motor oil – even animal fats. You didn't have to, because Congress cut EPA funds to enforce it until this September 26.

You may never need to buy into SPCC. During the House farm bill debate this summer, Representative Rick Crawford (R-AR) rescued you again with an amendment that says you need no plan – and the containment walls or berms around tanks that go with it – unless you have 10,000 gallons of storage.

PLACE YOUR BETS ON FUTURE REGULATIONS

You could also be in legal limbo for a while. Many ag lobbyists will be shocked if a farm bill passes before the federal fiscal year ends on September 30. So, in theory, EPA could try again. That's unlikely. Even in the Democrat-controlled Senate, another amendment to bump up the exemption passed unanimously in May. It's attached to a different bill. It's less lenient, starting at 6,000 gallons and could fall to 2,500 after a study. (My bet is the 10,000-gallon limit prevails.)

If your farm is small, with no kids coming into the business, you may fly under EPA's radar until retirement. After all, the SPCC rules have been revised or delayed many times since 2002. Even the Obama EPA has been rolling this back since 2009.

Yet, the original SPCC rule has been on the books since 1974. Some farmers aren't waiting for it to catch up with agriculture. By May, Charles Cannatella, who farms about 4,000 acres near Melville, Louisiana, finished a concrete block wall around a cement pad he built in 2006 when ▸

BY THE NUMBERS

Potential EPA fine
$37.5K

Engineering cost
$1-3.5K

Typical containment cost
$10K

Under-roof cost
$60K

Most likely cutoff to comply
10K GALLONS

Photography: Dan Looker

he put all his tanks in one spot. Jim and Cathy Sladek of JCS Family Farms at Iowa City, Iowa, decided three years ago when containing fertilizer storage to upgrade and protect fuel tanks, too.

Davie Stephens of Clinton, Kentucky, added containment a decade ago when he added fuel tanks and moved them "to make them friendlier for our size of equipment."

These farmers aren't big EPA fans, either.

Cannatella worries about what he calls its overreach. Stephens heads an American Soybean Association subcommittee that backed exempting small farms.

PENALTIES

All see this as a cost of doing business. The Sladeks belong to the FamilyFarms Group, a fee-based organization providing an array of consulting services, including regulatory advice from attorney Michelle Mellendorf.

"We've been counseling clients for about a year and a half to get these things done," Mellendorf says. Potential fines for not complying can hit $37,500 per day, she says.

Many of the farms in the group were also big enough that they needed to hire a professional engineer to draft the plan and its containment structures. Engineering costs range from $1,000 to $3,500.

Finding an engineer isn't easy. EPA's website lists the licensing offices for each state, a place to start looking, but most engineers aren't familiar with agriculture. Mellendorf helps clients find ones who are.

Enforcement differs by state, as well. "The one thing I've gotten a lot of questions on is irrigation," she says. Are fuel tanks for irrigation pumps aggregated for the 1,320-gallon threshold or are they separate? Some states require combining them. Others don't, she says.

COSTS AND BENEFITS

For his 17,000 gallons of combined storage, Cannatella says he paid about $10,000, doing some of the work himself. A neighbor put similar-size storage under a roof for about $60,000.

Jim Sladek says his farm also did some of the work. "Ours was roughly $1 a gallon," he says, for some 27,000 gallons of storage. But that includes the cost of adding some used, larger tanks.

The Sladeks had several reasons for upgrading. Combining the work with the fertilizer tanks saved on engineering costs. Jim says, "It's kind of a gray area" to even get fuel transport if you don't have an SPCC plan.

He was also surprised to learn at the time that fertilizer regulations were tougher than those for fuel and oils.

Cathy, who handles regulations for the farm, thinks the SPCC rules make some sense.

"We knew it was coming. The bigger fuel tanks we have, the larger problem we'll have if there's ever a leak," she says. "This is where I live, and I want to keep it clean and safe."

Cannatella is fine with being over the higher cutoff. "What we had was a little too restrictive," he says. "When you get to my size and the quantities I have, I feel like we need to be better stewards." SF

FARM LOANS GETTING CHEAPER

Riding continued strong profit margins through the midpoint of 2013, more farmers took on more debt, causing tighter competition among ag lenders that found larger banks coming out with a larger share of that growing business, according to new information from the Federal Reserve Bank of Kansas City.

A survey of farm lenders conducted by Fed economist Nathan Kauffman shows larger banks took on more of the 5.8% higher non-real estate farm loans in the second quarter of 2013. "Rising production costs prompted some agricultural producers to take on more debt, and lenders continued to compete for market share. The shift to borrowing from larger lenders could be due, in part, to attractive and flexible loan terms," Kauffman says. "Typically, larger banks offered more floating interest rate loans at lower rates than small and midsize lenders, suggesting larger banks may be better able to accommodate the borrowing needs of large producers expanding their operations."

BY THE NUMBERS
Small and midsize bank interest rates on non-real estate loans
5.4%

The increased volume of farm loans, as well as repayment of those loans, reflects recent profitability and also continued high input costs to raise a crop, Kauffman says. A combination of anticipated lower grain prices and the lure of lower interest rates helped push more of this loan volume to larger lenders.

"Looking ahead, an anticipated drop in crop prices closer to harvest could further strain farm profit margins, potentially boosting the need for short-term loans and curtailing farm capital spending at year-end," Kauffman says.

Large bank interest rates on non-real estate loans
3.6%

"Almost 90% of non-real estate loans at large lenders were made with floating interest rates, double the percentage at small and midsize banks. The average effective interest rate offered by large banks on non-real estate loans was 3.6%, much lower than the average 5.4% effective interest rate at small and midsize banks."

The good news for farmers moving forward is it's likely going to remain fairly easy to borrow money, whether for land, machinery, or operating costs, Kauffman says. Collateral needs remain low in the Midwest, and they'll likely combine with lower interest rates to make money easier to secure to keep operations financed in the next few months.

"Farm loan repayment rates remained high in all districts and loan renewals, and extensions generally, held at low levels. With slack loan demand, ample funds were available for qualified farm borrowers," Kauffman says. "In fact, most agricultural bankers in the Chicago, Dallas, and Richmond districts classified loan-to-deposit ratios as lower than desired. Collateral requirements for non-real estate farm loans eased slightly in most districts except Dallas, Richmond, and San Francisco, where they held steady. Meanwhile, heated competition for high-quality farm loans pushed interest rates down further for short-term feeder cattle and operating loans, intermediate-term non-real estate loans, and long-term real estate loans." SF