Notre Dame Journal of Law, Ethics & Public Policy

Volume 3
Issue 1 *Symposium on Agriculture*

Article 5

1-1-2012

Bauer Farms - A Family Corporation

Kyle Bauer

BAUER FARMS—A FAMILY CORPORATION

KYLE BAUER*

Bauer Farms, Inc. is a grain and cattle family farm in North Central Kansas. We are located one hundred miles south of Lincoln, Nebraska, one hundred fifty miles north of Wichita, Kansas, and one hundred sixty miles west of Kansas City, Missouri.

The climate is what I consider the "DMZ" between the moist eastern United States and the arid west. We can have hot dry summers or, like the summer of 1986, wet conditions (56 inches of rain) and moderate temperatures. With this unpredictability, grain sorghum (milo) is preferred to corn as a summer row crop. The economic return on corn is better in the wet years, but grain sorghum has the ability to wait for rain to make grain in the dry years.

Our farm is made up of 400 acres of irrigated land, 1100 acres of non-irrigated land, and 1000 acres of grassland. The irrigated land is flood-watered. For flood-watering, the crops are planted in rows with ditches between them. Aluminum pipes are laid out at the high end of the field and the water runs down the ditches by gravity to the lower end. Soybeans and corn share the irrigated acres about evenly. They are usually rotated from year to year to decrease fertilizer and pesticide expense.

The non-irrigated acres are planted with wheat, grain sorghum, and cattle feed. Grain sorghum is planted in the spring, near the time corn and soybeans are planted, while wheat is planted in the fall.

Bauer Farms, Inc. was founded four years ago as a solution to estate planning for my parents, John and Mae Bauer. Incorporation provided a means of buying out my parents' farm interest with limited capital, a means for my parents to sell assets with little tax consequence, and more favorable year-to-year income tax planning. My parents became half shareholders, with my wife and I owning the other half. At the time we incorporated, the major emphasis was on giving my parents a chance to "slow down" and yet provide them an income for retirement. The emphasis changed within a year,

---

* President of Bauer Farms, Inc.

when my father was diagnosed with cancer. He died a year later. Thanks to the incorporation, the farm ran as any business would which loses a key employee—a few shakes, but no collapse.

After graduating from Kansas State University with a degree in agricultural economics in 1980, I returned home to farm. I had met my wife, Lisa, at school while she was getting her degree. Lisa, a South Central Kansas farm girl, taught for two years in nearby Clay Center, Kansas, before our son was born. She now substitute teaches in the local schools part time, while her full time position is comptroller, bookkeeper, and hub of our communications system on the farm. Most of our vehicles have business band private line radios in them to help coordinate logistics. There is a base station in our home with which Lisa can monitor the workings of the farm, relay phone calls, and relay radio messages while keeping up with her job as mother.

The other full time position on our farm is filled by a local man. It is difficult for farmers to hire help. The hours are long and erratic. If we are planting or harvesting, we may put in 100 hours per week. When it rains for extended periods and in the winter, our hours drop back to about 40 per week. And it seems no two times over a field are the same and no two years are the same. So a farmer needs special people to do the job.

My father and mother farmed all of their lives, as did their parents. Now that my father is gone, my mother is a housemother at a Kansas State University fraternity. During the summer, she still lives in the home in which I was raised, less than a mile away. This allows for a lot of time with her grandchildren and for monitoring her half interest in the farm. Some of the land we own has been in her family since 1885. There is a rock in my mother's yard which her grandfather had as the front step to his homestead cabin. "Our roots run deep" is a cliche, but true.

I. Crop Planning

I do all of the crop, livestock, and financial planning. A number of factors go into these decisions including history, financial return, government regulations, cash flow, resources and labor mix, crop requirements, landlord wishes, soil type and moisture.

History—some call it tradition—is one of the biggest considerations. There is usually a reason why a farmer always

plants one field early and another late. A farmer may make many mistakes through the years, but he becomes good at learning from them.

Financial return is at the base of all business decisions. It is difficult to estimate returns because both production costs and selling prices are variable. Most farmers work from historical averages.

Government, at present, is the biggest factor in determining how much acreage to cultivate. The present system forces a farmer to plant the same crops he always has, and in the same ratio. The subsidy payments are determined from a five year rolling average. For example, if he doesn't plant wheat for two years and then decides to plant wheat, those two years of zeros are averaged in and his allowable acreage is now 40 percent less.

Cash flow is a consideration for many farms borrowing money. For instance, I try to have cattle ready to sell when my land payment is due and for spring planting expenses. I usually buy cattle, after crops are harvested, to lower the effective annual interest. When you are highly leveraged in times like these, your money really needs to work for you.

Resource mix is another important consideration. Every farm has three resources: land, labor, and capital. For example, a farmer may see his hog enterprise as the most profitable, but the labor available prevents an expansion. We plan our cattle enterprise to be very labor intensive through the winter, which saves feed cost by running the cattle on crop residues. We reduce our number of cattle through the summer and run the cattle on native grass pasture to save labor. A farmer with a lot of pasture land can reduce labor costs by pasturing fewer cattle on his grass, but leaving them there longer. Another farmer with less grass can better utilize labor by pasturing more cattle on the grass for a shorter period. He must then feed them hay he has used his labor to harvest.

Landlord-tenant relationships are very common in this part of Kansas. In this relationship, a person owns a farm and has a farmer farm the land for him. The farmer receives a portion of the crop as payment. The remainder is given to the landlord. The crop share given to the landlord ranges from 25 percent to 50 percent. The amount depends on the land's productivity.

In general, the more productive the land, the higher the percentage given to the landlord. It costs the tenant-farmer as much to plant a crop on low-producing land as on high-

producing land. To cover his costs, the farmer must receive a larger portion of the crop from less productive land.

For the most part, landlords leave the cropping decisions to the farmer. Most landlords believe that what makes the farmer the most money will make them the most. When the landlord does have a preference, those wishes are usually observed by the farmer.

All land is not created equally. Some land is very drought sensitive while other land is more tolerant. This is just one of many soil factors which the farmer considers in his cropping program.

Moisture is not usually a large consideration in this area, unless there is too much of it. West of here by about one hundred miles, however, moisture is always a factor. We plant more by the date and when it is dry enough. West of here, farmers tend to plant when they get rain.

Every farmer makes cropping decisions differently. Few have a formal system. Experience, knowledge, neighbor's thoughts and his own gut feeling, all help him make these judgments. He makes the decision, hopes for the best, and then lives with the consequences.

II. A Typical Year

There are no typical or normal years. I mean it literally when I say that no two years are the same. Despite this, I'll attempt to describe our routine throughout the year.

A textbook year begins January 1st. The crops are in from the prior year. Planning is underway for the coming year.

The day begins with the chores. Cattle are fed, if they are in corrals, or checked when they are in the fields grazing crop residues. If it is cold, ice is chopped off the watering tanks with an axe and pitchfork. Tractors and wagons with conveyors are used to feed the cattle. Chopped corn stalks, hay, and grain are fed in varying ratios. Sick cattle are brought into a corral with a three-wheeled all-terrain vehicle or a pickup. They are given antibiotics and are watched for three to five days before being returned to their field or corral. After chores, the day is filled with machinery maintenance and repair, fence building, tree trimming, and anything else the weather will allow.

The cows begin to have their calves in March. They have to be checked at sunup and sundown for any problems. If the weather is good, the cows seldom need help. We keep a small

pasture near home for the calving. Since grass has not begun to grow yet, the cattle are fed daily. When a calf is born, we place an ear tag in its ear with the same number as its mother. This allows us to match the cows and calves if necessary.

Field work usually begins in March and April. The fields are prepared for planting. Corn is planted anytime after April 10th, providing the weather allows.

We begin selling cattle around the first of April. Our cattle chores must be reduced to a minimum by May 1st to allow time for crop work. Fat cattle are sold to slaughter plants for sale to grocery stores. Smaller cattle are sold at auctions to other farmers for fattening. The cows are finished calving by May 1st. They, along with their calves, are moved to pastures, about twenty miles from headquarters, for the summer. The cows eat grass and the calves nurse from their mothers.

Soybeans are planted anytime after May 10th, when the weather allows. The first cutting of alfalfa hay (planted the previous fall) is harvested near the end of the month. Grain sorghum is also planted near the end of May and the beginning of June. If we get an extended wet period during this time, the schedule gets backed up. The days can get very long when it does dry out.

We finish planting in June. The corn, soybeans, and milo are cultivated. Irrigation pipe is laid out in anticipation of dry weather. The second cutting of alfalfa is harvested in the last half of the month. Our hill farms (cultivation on sloping land) have mounds of dirt on them to divert excess rainwater around the slope of the hill to reduce soil erosion. These mounds are called terraces. The terraces dump water into grassed areas where the water can run to the bottom of the hill without eroding the soil. In June, we usually cut and bale the grass in these waterways for winter cattle feed.

The wheat ripens in the last half of June. We harvest it with a combine which cuts the wheat, threshes the grain from the straw, and puts the grain in a bin on the combine. When the bin is full, the grain is dumped into trucks and trailers. The grain is delivered to elevators in nearby towns or stored in bins on the farm. Elevators are businesses which store grain for the farmer. They will buy the grain from the farmer and sell it to feedlots, millers, and exporters.

July is spent plowing the wheat fields to prepare them for planting, irrigating corn and soybeans if it is dry, and putting the third cutting of alfalfa up for winter cattle feed.

The cattle at pasture are checked in our spare time. We try to check them once a week to see if they are all in the pasture and healthy.

Most of the time, July and August are hot and dry. This is the time of the year some recreation and vacation can be taken. The wheat ground is prepared for planting in August. Irrigating is finished by Labor Day. Corn is chopped in August for cattle feed.

September 15th marks the start of wheat planting time. Wheat can be planted until Thanksgiving. The grain sorghum is harvested near the end of September with a combine. Once harvesting starts, soybeans and corn follow as soon as the weather will allow. Usually we are finished by November 1.

The cattle are brought home from pasture during October. The cows and calves are separated. The cows are turned out to feed on corn and milo stalks. The calves are turned out on wheat pasture which resembles lush new grass.

In November, we prepare for winter. We clean up the machinery and store it in sheds, build temporary fences around the fields for cattle before the ground freezes, haul hay near home for snow storms, place heaters in water wells, winterize engines so they won't freeze, and move feed bunks into fields to feed cattle during snowy periods.

In December, you do what the weather allows. If it snows a lot, you spend the month feeding cattle and working in the shop on machinery. There are times when we are able to begin preparing the fields for spring planting. Many winter days are spent completing records and attending meetings to keep educated on everything from computers to seed corn to government programs.

III. A Typical Farm?

Is our farm typical? My answer is "No!" There is no such thing as a typical farm. Just as no two years are the same, no two farms are alike. However, comparisons can be made on the basis of gross sales, acreage, labor pool, productivity per acre, debt size, renting or owning land, and education or age of the operator.

We are considered a large farm by the government. They categorize by gross sales. But I don't think of our operation as a large farm. My favorite definition of a big farmer is anyone who farms more than I do.

It is hard to categorize by livestock numbers. Our farm sometimes has as many as 600 cattle, but no other livestock. My neighbor only has about 150 cattle, but he has 1000 hogs.

Crop acreage is another poor measure. Perhaps an acre of pasture here is much better than an acre in Southeast New Mexico. Fifty acres of corn isn't all that much for one man to care for. Fifty acres of strawberries would be difficult.

My view is that this diversity is the key to American agriculture's strength. There are few industries with so many motivated entrepreneurs from which to draw. Every one of them is a separate, thinking individual with a different perspective of production problems. Due to these different perspectives, it is difficult for the United States to have a complete crop failure. The crops and livestock are produced with a myriad of subtle differences which can make a difference in the final product. Theoretically, the centrally planned production of communist countries reduces inefficiencies, but when a mistake is made, it is a big one.

IV. The Future

The future for American agriculture is uncertain. I question if we can remain competitively priced in a free market. I question if government can afford to support prices above competitive levels. Technology has kept us competitive with other countries for four decades, allowing us to compete against cheaper land, lower standards of living for their farm labor, and more productive climates. Today farm technology crosses borders more easily than farm produce; plant breeds can adapt to a wide range of climates, each acre produces a great deal more than in the past, and technology is available from a number of sources.

Other big questions to be answered for the future include consumer tastes, consumer price sensitivity, and government intervention. The world has become so small that government intervention, in an area like international banking, can have a huge impact on American farm markets.

I can't predict the future of American agriculture or the future of Bauer Farms, Inc. We enjoy our work, our community, and our lifestyle. If those factors remain constant, Bauer Farms will continue to be a dynamic concern here in Clay County, Kansas.