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Alaska RightRisk News

Beyond the Balance Sheet: Building Financial Resilience in Alaska Agriculture

The national farm economy is struggling at present, especially in the crop sector, with low crop prices and persistently high operating costs. One alarming indicator of this struggle is rising bankruptcy filings. Chapter 12 of the bankruptcy code dates to the 1980s farm crisis and was specifically created to help family farms stay in business while resolving their debt situation. In 2024, Chapter 12 filings increased in the U.S. by 55% over the number of filings in 2023 and this upward trend continued in the first half of 2025. While alarming, it is important to realize that this upward trend is coming from a 20-year low in 2021. It is not a time to panic but rather a time to become aware of potential problems developing.

Long-term survival for any business is dependent on a lot of factors but perhaps none more important than accurate, up-to-date financial information coupled with regular analysis of financial health and monitoring for potential weaknesses. Having a firm understanding of the financial health of your farm or ranch can be challenging, but it is a necessary condition for the survival of your farm or ranch business through low or negative profit periods. This is true even for small or part-time producers who may not rely on income from farming operations to fully support their living expenses. The ability to absorb losses from the farm does have a limit in most cases. If not a financial limit, then at least a mental tolerance limit, as losses from farming activities creep into and negatively affect the family wealth situation and/or living standards. Furthermore, whether large or small, any farms going out of business negatively affect the vibrancy of the local farming community and economy.

Alaska is home to 1,200 farms on approximately 870,000 acres of farmland. However, only about 10% of Alaska's farmland is cropland with 85% of it in pasture or rangeland and the remaining 5% being woodland. On the other hand, agricultural cash receipts tell a different story. Crop sales make up about 80% of farm cash receipts in Alaska compared to only about 20% coming from livestock. Like the rest of the nation, most Alaskan farmers do not rely upon the farm for full financial support with two-thirds of Alaskan farmers working at least part of the year off the farm.

Alaska Farm Performance

So, how are Alaskan farms doing compared to the entire U.S. farm economy? Aggregate net farm income for Alaskan farms from 2016-2023 peaked in 2021 at just over $3 million (Figure 1). This represents the only year during that span with a positive net farm income in Alaska. While farm cash receipts have steadily increased during that span, so have farm production expenses, with a sharp increase in expenses occurring in 2022-2023. The aggregate farm production

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expenses across all U.S. farms also saw a sharp increase in 2022-2023 (Figure 2). However, there was a corresponding increase in cash receipts to counter it, with net farm income peaking in 2022. Forecast data from the USDA-ERS is available for 2024 and 2025 for the entire U.S. farm sector but not yet available for individual states.

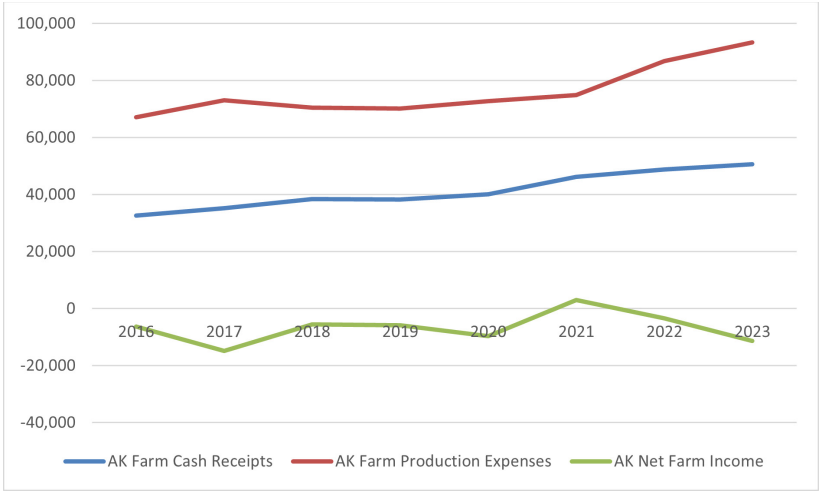

Figure 1: Farm cash receipts, farm production expenses, and net farm income for Alaska farms 2016-2023 (nominal dollars). Source: USDA-ERS.

Looking at the underlying numbers that go into the data charted in Figures 1 and 2 provides additional insight into the Alaska farm financial situation. One observation is that unlike the 80/20 mix of crop revenue to livestock revenue in Alaska, all U.S. farms exhibit more of a 50/50 mix. This is important because while crop revenues have declined recently, livestock revenues have spiked higher. From 2016-2023, livestock cash receipts made up 47% of total U.S. farm cash receipts. However, that went from 44% in 2021 to 48% in 2022-2023. The forecast is for livestock cash receipts to be 53% of U.S. farm cash receipts in 2024-2025. Alaska farms appear to be a little more vulnerable to the current financial stress because of less diversification across crops and livestock income.

Production Expenses

Another observation is on the mix of production expenses. Hired labor accounts for approximately 8% of the farm production expenses across all U.S. farms from 2016-2023. For Alaska, hired labor accounts for an average of 31% of farm production expenses over the same period. For both Alaska and all U.S. farms, hired labor expenses have shown a consistent increase year over year with 2023 being about a 50% increase over 2016. However, for Alaska, this shows a more limited ability to cut expenses by cutting back on material and equipment expenses without cutting into the labor force.

Finally, on the revenue side, the role of direct government payments and Federal crop insurance programs are quite different comparing Alaska and the entire U.S. farm economy. While direct government payments made up about 20% of U.S. net farm income and 4% of the value of farm production over the 2016-2023 period, it accounted for 22% of the value of farm production in Alaska and cut the net farm income losses in half. Federal crop insurance is lightly used in Alaska even though the producer loss ratio is close to 4:1, twice the national average. Federal crop insurance net income (indemnities minus premiums) has negligible impact on Alaska net farm income. Meanwhile, it made up about 4% of the U.S. net farm income from 2016-2023. For a deeper dive into crop insurance in Alaska see the November issue of Alaska RightRisk News. (Alaska.eRightRisk.com/2024/2024_11_AK_RightRiskNews.pdf.)

Assessing Farm Financial Performance

It is important to take time to assess the financial situation on your own farm. Good financial records are essential to being able to do this on a regular basis and head off the potential of finding yourself under financial stress. Profitability is the key to operating any business and as noted above, Alaska farms lose money in most years. Even if off-farm income or other wealth is the primary source of income to cover living costs, it is still important to understand the financial health of the farm.

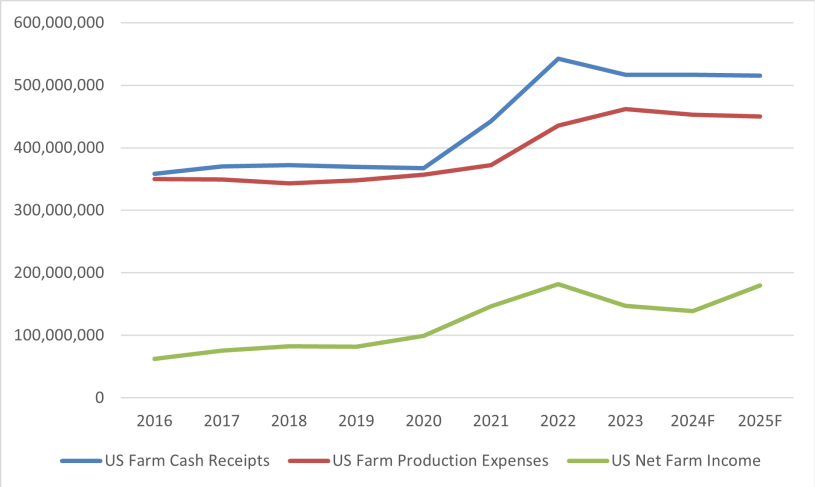

Figure 2: Farm cash receipts, farm production expenses, and net farm income for U.S. farms 2016-2025F (nominal dollars). Source: USDA-ERS.

Key Financial Measures

Key measures of farm financial health include liquidity measures and solvency measures. Liquidity measures assess the farm's ability to make scheduled financial payments as they come due. One measure of liquidity is working capital. Measured as the dollar amount of cash on hand, it can be a useful comparison over time to see if it is growing or eroding. However, a more useful calculation of it is the ratio of working capital to gross revenues. The higher the ratio the better. The USDA-ERS provides national financial data for U.S. farms. The average ratio of working capital to gross revenues for all U.S. farms from 2016-2023 was around 20%.

Solvency measures provide a picture of a farm's current ability to repay financial liabilities from the sale of assets. In this way, it measures the farm's risk exposure and ability to overcome adverse financial events. Solvency measures come in the form of ratios comparing the amount of debt relative to equity or

assets. The debt-to-asset ratio is a common solvency measure with the average being around 13% for U.S. farms from 2016-2023. A debt-to-asset ratio below 30% is good in most farm situations.

Other important farm financial measures include efficiency measures and profitability measures. These are more early indicators of potential farm financial stress. Efficiency measures provide information on how well the farm uses its assets to provide revenue. They include measures like the asset turnover ratio which is the gross revenue of the farm divided by the average asset value of the farm. The national average from 2016-2023 was 15%. The asset turnover ratio for an individual farm will depend upon the nature of the business and how capital intensive the investment in assets is. An individual farm should strive to be in the 20 to 40% range, or higher. However, a sizable portion of U.S. farms are capital intensive operations with high asset investments in land and equipment.

Farm Profitability

Profitability measures capture the farm's ability to generate returns relative to the resources used. Of course, the net farm income discussed earlier is one of the primary profitability measures. However, to capture comparisons from year-to-year or across different sized operations, ratios like the rate of return on equity are useful. The national average from 2016-2023 was 6.5%. Individual farms should strive for a rate of return above 10% to account for the risk involved in the investment, although returns in 5-10% range are common in agriculture.

Low crop prices and increasing farm expenses are causing some farms to struggle. The Alaskan farm economy is heavily dependent on crop revenue and experiencing increasing farm expenses like the rest of the nation. Keeping good financial records and using them to assess financial health is important for farm survival. RightRisk.org provides a number of resources to help producers in this task, including a series of Getting on Track financial records courses for farmers to get started with keeping better financial records.

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