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lent support. On the negative side, escalating costs for fuel, fertilizer, seed, pesticides and machinery have offset some of the higher revenues.

The latest survey also presents typical dollars of rent per bushel of corn and soybean yield for each county, based on the county average yield for each crop during the last 10 years. This year the rent per bushel ranged from \$.93 to \$1.10 for corn and from \$3.20 to \$3.60 for soybeans across the 12 areas.

Survey results are intended to be used as guidelines, only. The appropriate rent for an individual farm should take into account factors such as fertility levels,

drainage, USDA program parameters, size and shape of fields, existence of seed production or manure application contracts, local grain prices, and other services provided by the tenant.

Other resources include Ag Decision Maker information file C2-20, "Computing a Cropland Cash Rental Rate," and file C2-21, "Flexible Farm Lease Agreements." Both of these include decision file electronic worksheets to help analyze leasing questions.



## Energy agriculture - who will own it?

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The lack of profitability of agriculture over the last 50 years had a silver lining – nobody bothered us. Rates of return in production agriculture of 4 to 7 percent did not attract many outsiders. Although we have seen outside investment in the livestock sector, much of the rest of production agriculture was left untouched. So we were relatively isolated from outside intruders. This allowed us to run this industry the way we wanted to.

This is changing. Outside investors are attracted to "rates of return" like a moth is to a flame. And the recent returns to ethanol production have attracted a lot of attention. So we need to get used to sharing our turf with outsiders.

However, the concern is not with the outside investors. Rural America probably cannot adequately capitalize the array of renewable fuel companies emerging over the next decade. And outsiders bring business expertise. So outside investment is crucial for fully developing the renewable fuels industry in rural America. But to generate the maximum impact of the renewable fuels movement on rural economic development, we need to provide for rural ownership of these companies so that rural investors receive a portion of the profits.

Economic developers often look to job creation, tax base expansion and related economic activity as the

benefits of developing the renewable fuels industry. And these are important aspects. However, ownership and the returns that ownership provides are other components of rural development. Farmers and rural residents have a long history of making ownership investments in agriculture and rural America. So ownership plays an important role in rural economic development.

To the credit of many of the current renewable business projects seeking funding, they are attempting to provide investment access to rural residents. However, conducting fifty or more investor meetings to access local small investors takes a lot of time and effort. Moreover, the Security and Exchange Commission exemptions provided for small business ventures often don't fit the needs of these types of rural businesses. So it is easier to bring in two or three large outside investors than 1,000 small local investors.

### Investment Funds

Investment funds could be an attractive alternative for rural investors and for equity seeking agribusinesses. Rural investors could pool their money in an investment fund which would subsequently invest in a variety of renewable fuels and other rural companies. This would provide the individual investor with a diversified portfolio of investments without personally investing

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in each company. From the company's perspective, it can access capital from the investment fund rather than trying to attract investment from a wide variety of individual investors.

An impediment is the complication and expense associated with the registration required under the Investment Company Act. This fixed cost is overly burdensome for small funds of the type that would be used in rural areas.

However, funds with 99 or fewer investors are exempt from these registration requirements. This exemption is often used by large funds that are dominated by a relatively few very wealthy investors. Because of the large investment per investor, ninety-nine investors can create a fund of enormous size.

But this provides little value for rural funds that have a large number of small investors. So, under current law, rural investment funds have limited value as a vehicle for local ownership of renewable fuels and other rural businesses

Designing an exemption that restricts the size of the investment of each investor rather than the number of investors would meet rural needs. For example, limiting the size of each investment to no more than \$50,000 and limiting the size of the fund to no more than \$50 million dollars would provide a fund of at least 1,000 investors that would have adequate size to invest in a variety of renewable fuels and other rural businesses.

These funds could be tailor-made to the needs of the investors. Some funds could be designed for investors seeking a modest return and low risk profile by restricting investment to established businesses. Other funds could be designed for a high risk/high return profile by investing in startups.

### Liquidity

The ability to sell renewable fuels or other agricultural processing investments has been a problem for rural investors. New Generation Cooperatives are especially problematic because most of them are required to be owned by farmers. So when a farmer retires, he cannot be an owner. The shares must be liquidated even if the owner would like to retain them.

The market for these shares is limited because they must be sold to another farmer. For example, the ownership interest cannot pass to heirs if the heirs are

not farmers. As the number of farmers continues to decline, the size of the pool of eligible buyers for the shares also declines.

Companies formed as Limited Liability Companies (LLC) are also problematic. Although LLC shares can be owned by non-farmers and sold to non-farmers, finding potential buyers is difficult.

Clearinghouses have emerged in recent years to bring together buyers and sellers of these agricultural investments. Although providing a valuable service, these organizations don't provide the liquidity that would be provided by an organized exchange.

### Rural Mainstreet Exchange

Some of my business development friends and I have brainstormed about a stock exchange for rural America. Although it would be designed to meet the needs of rural investors and rural businesses, it would be open to anyone. We could call it the "Rural Mainstreet Exchange".

Rural investors tend to look for long-term investments. They also prefer investments that provide annual returns rather than large capital gains when the investment is sold. In other words, rural investors tend to provide "patient capital". Moreover, rural investors often look to invest in companies that provide local rural development.

Conversely, traditional stock market investors are usually looking for investments where they can quickly capture large capital gains. Moreover, the rural development aspect of these investments has little impact on their investment decision.

The exchange could be designed for electronic trading. Listed companies would provide company reports along with transparency of financial records to help buyers and sellers assess the financial value of the company.

Granted, starting a stock exchange is a daunting task. But it would provide easy access for rural residents to participate in the ownership of these businesses. It would also provide for improved liquidity when selling.