## *Case Study 3: Comparison Summary of all Scenarios*

| | **Status Quo Scenario**<br>**(Upcoming Year)** | **Scenario 1**<br>*(Tyler & Chrystal taking over, renting equip)*<br>**(Year 2 After Change)** | **Scenario 2**<br>*(Tyler & Chrystal taking over, buying equip)*<br>**(Year 2 After Change)** | **Scenario 3**<br>*(renting 6 1/4 to 3rd parties, selling off $450,000 equip investing @5%*<br>**(Year 2 After Change)** | **Scenario 4**<br>*(renting 6 1/4 to 3rd parties, selling off $450,000 equip paying off all term debt)*<br>**(Year 2 After Change)** | **Scenario 5**<br>*(renting all land to 3rd parties, selling off $850,000 equip, paying debt, investing)*<br>**(Year 2 After Change)** |
|---|---|---|---|---|---|---|
| **Accrued Farm Revenue** | 685,095 | 243,850 | 183,850 | 192,250 | 192,250 | 107,100 |
| **Accrued Farm Expense** | 584,440 | 221,712 | 151,725 | 151,064 | 130,095 | 12,332 |
| **Net Accrued Farm Income** | 100,655 | 22,138 | 32,125 | 41,186 | 62,155 | 94,768 |
| **Return on Assets** | 1.69% | -0.51% | -0.30% | -0.10% | -0.11% | 0.58% |
| **Return on Equity** | 1.20% | -1.16% | -0.91% | -0.69% | -19.00% | 0.58% |
| **Non farm income (including interest income)** | 15,000 | 25,000 | 25,000 | 47,500 | 25,000 | 44,000 |
| **Living costs** | 50,000 | 70,000 | 70,000 | 70,000 | 70,000 | 70,000 |
| **Income tax** | 10,000 | 3,000 | 3,000 | 3,000 | 7,000 | 16,000 |
| **Debt Service Capacity** | 175,240 | 76,398 | 16,465 | 48,025 | 17,542 | 60,156 |
| **Debt Service Capacity (adding in loan principal** | nothing added | nothing added | add 63,333 | add 33,333 | add 33,333 | add 6,667 |
| **payments from Tyler and Chrystal)** | 175,240 | 76,398 | 79,798 | 81,358 | 50,875 | 66,823 |
| **Debt Service Requirement** | 133,043 | 53,813 | 53,813 | 53,813 | 0 | 0 |
| **Debt Service Ratio** | 1.32 | 1.42 | 0.31 | 0.89 | No debt | No debt |
| **Debt Service Ratio (adding in loan principal** | nothing added | nothing added | add 63,333 | add 33,333 | add 33,333 | add 6,667 |
| **payments from Tyler and Chrystal)** | 1.32 | 1.42 | 1.48 | 1.51 | No debt | No debt |
| **Budget Surplus** | 42,197 | 22,585 | -37,348 | -5,788 | 17,542 | 60,156 |
| **Budget Surplus (adding in loan principal** | nothing added | nothing added | add 63,333 | add 33,333 | add 33,333 | add 6,667 |
| **payments from Tyler and Chrystal)** | 42,197 | 22,585 | 25,985 | 27,545 | 50,875 | 66,823 |
| **Lifestyle Ratio (net farm inc + non farm income)** | 115,655 | 47,138 | 57,125 | 88,686 | 87,155 | 138,768 |
| **Maximum Operating Loan Req.** | 156,071 | 0 | 20,086 | 18,628 | 97,227 | 0 |
| **Closing Current Ratio** | 2.18 | 2.25 | 2.34 | 3.59 | No debt | No debt |
| **Closing Debt to Equity Ratio** | 0.20 | 0.14 | 0.13 | 0.13 | 0.00 | 0.00 |
| **Closing Equity Ratio** | 0.83 | 0.88 | 0.88 | 0.89 | 1.00 | 1.00 |

| | Status Quo | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |
|---|---|---|---|---|---|---|
| **Pros for this Scenario:** | - most profitable for the parents<br>- will result in continued growth and build up of equity in the operation<br>- allows parents to continue to control all their farm assets | - provides great opportunity to Tyler and Chrystal<br>- provides a phase out plan for Bill and Edna<br>- retains all existing farm assets in the operation | - net results similar to Scenario 1 overall. DS ratio appears to worsen, but remains similar as equipment rental now changes to principal payment | - less financial support to Tyler and Chrystal results in better returns to parents<br>- less risk to Bill and Edna<br>- provides for a financial cushion for Bill and Edna | - similar to Scenario 3, loss of interest income is offset by lower interest costs<br>- retirement of term debt improves cash flow<br>- risk is further reduced with all debt being retired | - financial support to Tyler & Chrystal is minimal<br>- no debt<br>- assured income is more than enough to meet all financial demands<br>- more equitable to other children<br>- allows for full retirement |
| **Cons for this Scenario:** | - continued high levels of demands on Bill and Edna<br>- limited opportunity for Tyler and Chrystal to expand operations | - financial returns to Bill and Edna are low<br>- Bill and Edna loose management control over a significant portion of their assets to Tyler and Chrystal<br>- risks change - operational risk drops, risks they can't control increase<br>- possible tax implications | - as in Scenario 1<br>- possible tax implications | - loss of equipment to the family may result in extra costs later if Tyler & Chrystal want to farm all the land<br>- 6 1/4s will now be farmed by a third party<br>- loss of assets to the farm operation<br>- moving away from goals<br>- tax implications | - as in Scenario 3<br>- with the investment now being gone, if they decide to resume operations will need to borrow the funds<br>- loss of assets to the farm operation<br>- greater dependence on operating debt<br>- moving away from goals<br>- tax implications | - takes them further from the goal of having the next generation take over the farm<br>- there will be little involvement in future operations for Bill and Edna They may find the transition difficult<br>- possibly major tax implications |