



Gibson Insurance Group

"The Risk Management Specialists"

Livestock 2018

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Over the last few decades the economic and technical aspects of agriculture have changed dramatically. In the 1970's, most farms were diversified operations that could spread the farm's labor over the entire year. The size of farms during this time were much smaller but the returns that were able to be collected by the producer were considerably greater on the per acre basis than they are today.

Since then equipment has gotten larger and operations have become more specialized to take advantage of the economics of a given area. Meanwhile, the number of producers have gotten smaller. The ones that remain have operations that are larger and much more technically advanced. Smaller and medium size producers, like myself, find ourselves in a quandary of how to accommodate family members wanting to return to the operation. Many times there is not enough income to split an operation and be able to support two families. It is disheartening, to tell our children that there is just not room in the current operation.



One of the greatest legacies a producer can have is to be able to pass on the family farm to the next generation. Being a producer for all my life, I have realized and enjoyed the benefits of growing up in a business that teaches responsibility, self-reliance, a work ethic, and a morality, that is seldom ever achieved in other lines of work. When our family members are ready to return to the farm we all would like to find a way to make the lifestyle we



**Gibson
Insurance
Group**

337 Highway 50 East
P.O. Box 795
Tipton, MO 65081

Phone: 660-433-6300
Fax: 660-433-6315
gibsoninsurancegroup.com



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have lived, possible for our children

This is the situation, as a parent, that I am currently faced with. I struggle with the ramifications of risking the entire operation to allow family members who lack the experience and skills to compete with established operations to enter.

Today it has become nearly impossible for a young person to enter the field of production agriculture due to the capital requirements, technical expertise and low margins that exist in this industry. I have studied poultry operations, beef finishing, and hog operations. The capital outlay and management requirements for each facility are very different. Our last livestock news letter addressed some of these issues and how young people might enter into production agriculture through various means of animal feeding. In that article we addressed concentrated cattle feeding and the complimentary advantages this enterprise might have to the whole of the operation.

Recently, I was contacted by a swine management company, Pipestone, that invited me to come and visit their operations located here in the state of Missouri. The philosophy of this group is very different than the vertical integrators that I had become accustomed to visiting with. This group puts a small handful of family farmers together, in a collaborative effort, to farrow sows and produce piglets that will in turn be shipped back to the family farms to be finished.



Farrowing sows and producing healthy piglets is the hardest, most labor-intensive portion of raising hogs. This is where Pipestone management of the farrowing barns comes in. Because of the research that has been done and the economies of scale, it is advantageous for the producers to have this management company raise their pigs rather than trying to do it on their own operations on a smaller scale.

As with anything, the more specialized a business becomes the better job they do at producing an end product. With this specialization also come the responsibility of doing this in a clean, humane, and an environmentally friendly way.



After considerable consideration and a lot of study I decided to sell an option to this company to buy a small tract of land on my farm if they could pass the permitting process. In turn, I would be eligible to receive a portion of the nutrients that will be generated from this operation to fertilize my row crop operation.

Since then there has been considerable misinformation put out about this business so I thought it

was appropriate to explain what I have learned and to try to set the record straight about animal production agriculture.

To be honest, when I first was approached with this idea I was skeptical. I have heard and read all of the stories about the situation that happened in Northern Missouri which resulted in million dollar fines to that hog operation.



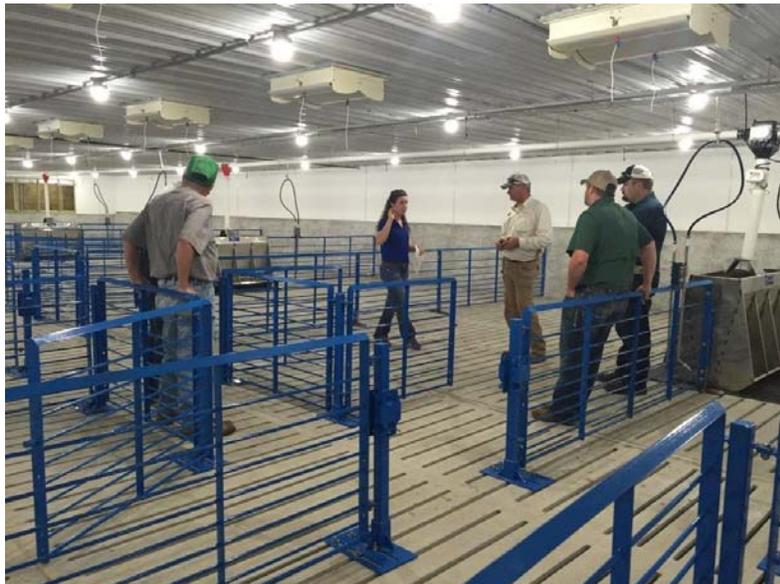
With these preconceived notions I accepted their offer to go visit the facilities close to our area.

The facilities that I visited were not nearly as large as I expected them to be. The entire operation was located on about 15 acres with ample room for driveways. These facilities were clean and without offensive odors. The people of Pipestone stressed that they were not finishing facilities but rather farrowing operations. These operations do not use lagoons and the manure is covered at all times to reduce odor. On the days that I visited these facilities I couldn't detect any odor at 100 feet from the buildings.

A week later Dr. Steve Menke, from Pipestone, came to my office and informed me that they had a small group of producers that were looking to place one of these facilities in the area. He had looked at many sites and found that my farm had a site that would be good for one of their operations. A site where the distance from nearby residences to the facility were well within the guidelines set forth by the Missouri Department of Natural Resources. In fact, the residence that would most likely be impacted is mine; which is located directly downwind of the proposed facility to the east.

I then revisited the farm near Slater, Missouri to see if this was something that was workable or not. I asked many questions about neighbor relations. Had anyone ever complained about offensive odors? Their reply was that there had never been an issue with any of these farrowing facilities. Thus, started the decision process to see if this was something to be considered or not.

The first thing that I looked at was the Economic Impact study provided by Pipestone. A copy of the study is printed on the following two pages.



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Cooper County—Tipton Sow Farm

Information sheet for a 5800 Sow Farm

February 2018

Purpose: To produce high quality weaned piglets to supply family pork producers located in the Midwest.

Why Cooper County:

- Agriculture community
- Low swine density area
- Low population density
- Access to good work ethics and animal husbandry skills
- Available labor pool
- Agriculture land to utilize the natural fertilizer

Scope and Size:

6 buildings

1. 4700 gestation spaces including loose sow housing (building 1)
 2. 1080 maternity pens (building 2)
 3. 1620 gilt developing spaces (building 3)
 4. Office (building 4)
 5. Compost building (building 5)
 6. Small storage shed (building 6)
- Buildings are well designed and expected to last 40+ years
 - All animal manure is stored in a concrete pit beneath the building for odor reduction and preservation of the nutrients for use as natural fertilizer.
 - The site will have an automated stand by generator for backup power
 - The site will have emergency alarm systems for notification of possible issues at the site.

Approximate Cost:

- \$14,000,000 for real estate and buildings
- \$4,000,000 for livestock

- Total cost ~ \$18,000,000

Employment opportunity summary:

- 17 full time employees to run the farm
 - Annual payroll ~ \$1,200,000
 - Comprehensive benefit package offered to all full time employees
 - Profit sharing retirement plan offered with employer match
- 4 part time employees
- Many other indirect jobs created
 - Feed Manufacturing and hauling
 - Livestock hauling
 - Nutrient removal
 - Maintenance
 - Utilities

Annual numbers production:

- 160,000 weaned piglets produced annually
 - Estimated value \$6,400,000 per year in weaned piglet sales
 - Estimated \$600,000 in sow sale revenue

Resources used annually:

- Estimated feed stuffs used
 - 180,000 bushels of corn
 - 750 tons of soybean meal
 - 2000 tons of DDG's
 - 250 tons of other ingredients
 - Estimated total feed cost \$1,700,000
 - Feed stuffs sourced locally
- Estimated annual utility needs
 - Electrical use \$150,000
 - Propane use \$50,000

Manure production and nutrient management summary:

- Approximately \$200,000 in nutrient value created annually by the organic manure

from the facility

- Will provide enough organic nutrients for ~ 1200 acres annually. The nutrient management plan will be monitored by the State of Missouri's DNR.
- All manure liability is held by the building owner
- Nutrients will go to local land owners.
- Application methods used:
 - Drag line will be used
 - * Lower field compaction
 - * Less road use
 - * Improved safety
 - * Faster application
 - Manure is incorporated into the soil at the time of application for improved nutrient utilization and reduced odor emission.

How does the Pipestone System Fit?

- Site prospecting and permitting
- Provide design
- Provide professional management for the owners
- Currently manage 70 sow farms in SD, MN, IA, NE, MO, IL, WI

Position on roads:

- Need good quality roads
- Will restore to as good or better condition than they were in at the start of the project
- Will sign a road haul agreement with the Township or County if appropriate
- Truck Traffic equivalent
 - 6 semi loads of feed per week (1 load per day)
 - 3 loads of wean piglets or sows per week

Estimated State and Local benefits:

- Employee base and \$1,200,000 annual payroll
 - 17 full time and 4-6 part time jobs
 - Also many indirect jobs

- Feed purchased locally at approximately \$1,700,000 per year
- Improve grain basis on feed grains used
- Utilities purchased locally valued at approximately \$200,000 per year
- \$200,000 in nutrient value to local farmers
- Real Estate taxes paid by the sow farm
- Appropriate state sales and excise tax to build the project estimated to be > \$250,000
- For the 10 months of the construction phase of project many construction people in the community that will need:
 - Food
 - Lodging
 - Fuel

- Local vendors will be used if available
- State sales tax on many items purchased annually for the sow farm
- Farm will be a 40+ year flagship in the community contributing to the local economy.

Nutrient summary:

- Typical sow barn manure will test per 1000 gals – 20 lbs N, 10 lbs P, 10 lbs of K.
- Based on a 150 bushel/acre corn crop and a nitrogen based application the target would be 8,000 gallons per acre applied. This would be 160 lbs of N, 80 lbs of P and 80 lbs of K. This will increase to 220 bushel/acre corn

Water Usage and reference:

- Site will use 25,000 gallons of water / day
 - 2 wells
- 50,000 gallon reservoir on site

Water Use comparison

6 barn broiler operation will use approximately 20,000 gallons of water per day

At this point I posed several questions to Pipestone in writing to fact check their responses. Dr. Steve Menke responded to my questions.

How many operations does Pipestone operate in Missouri?

"We have 6 Pipestone managed farms operating in Missouri."

Have there ever been any issues with the operation on any of these facilities that affected the neighbors if so how were these issues addressed?

"We have had NO neighbor issues."

Have there ever been any odor complaints filed with the DNR or other State agency? If so what corrective action was take to address these issues?

"There have been NO odor complaints. Therefore no corrective action has ever been necessary."

Has there ever been an issue where ground water or well water quality has been compromised?

"We have had NO well or ground water issues."

What assurances do we have that this facility will not be sold to an operation like Premium Standard Farms who has a tainted record in the future?

"Sales to a PFS type organization is unlikely as that has not been our history. Our client base is family farmers whose goal is to keep the family on the farm and build the farms of tomorrow."

Many large swine operations in Northern Missouri have had reported issues with odor. What do you do differently to control this and why should we expect a different result?

"I will make several points here."

- *"Pipestone will use deep pits under the buildings, concrete and steel engineered by Missouri Licensed engineers. There will be no lagoons."*
- *"Pipestone will apply all nutrient material with a drag hose injection system. Material will be injected into the soil based on crop utilization and a Missouri DNR approved Manure Management Plan. Applications will be on row crop production. Nutrient materials will never be exposed to daylight."*
- *"Nutrient application will be 2-5 days twice per year"*
- *"Northern Missouri operations have used surface applications with traveling irrigation guns. Minimal or no incorporation was used with this method."*
- *"Pipestone is a farrowing and piglet operation. Pigs will leave the site at 23 days of age ."*
- *"Northern Missouri production has significant finishing hogs with a much greater concentration of pigs. This Northern Missouri system may have greater than 90,000 pigs in a 1-2 square mile area. Pipestone will have only 5784 adult animals."*
- *"All diets will be nutritionally balanced for sow and piglet production. Not finishing rations. The nutrient level of manure from farrowing rations is much lower thus reducing the odor."*
- *"The Pipestone record is one of conservation and sustainability with the best technology in the world."*

In evaluating this proposition, I put great importance in the economic impact study. Eighteen to twenty good jobs being brought to the area would provide a great opportunity to young people wanting to enter production agriculture. Salaries in the \$60,000.00 dollar range would be good anywhere, but in our local area, this is considerably better than average. Initially, the environmental impact of odor was a concern before I took the time to get educated about modern swine production, this company, and their history. The train wrecks that happened 20 years ago in North Missouri are no longer a reality today. We cannot look at a single entity and place blame across an entire industry. To the best of my ability, I could not document any complaints in the state against facilities managed by the Pipestone company.

I am of the belief that animal feeding operations of this size are not bad. I recently Googled for the number of large animal facilities in Moniteau, Cooper, and Morgan Counties. To my surprise there are many more of these than I expected. Most of these operations were poultry but there are a few swine operations.

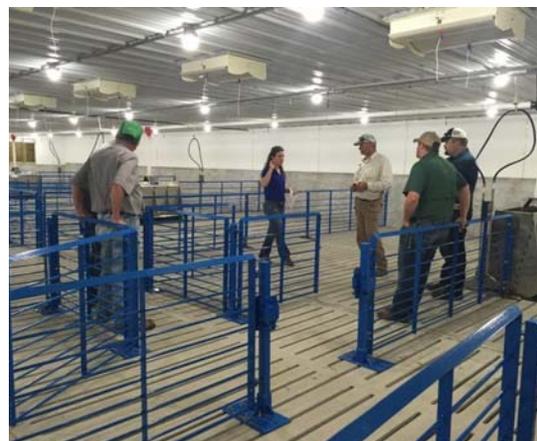
When a facility becomes the size where it needs to be permitted (CAFO), they find themselves having to follow the rules and regulations established by government agencies that have been entrusted to safeguard our environment. This should give us a feeling of security. Among the many rules and regulations that CAFO's must follow are the stringent standards established by these government agencies relating to the handling and land application of animal waste. Livestock facilities that fall below a CAFO designation are not governed by these regulations and misapplication could potentially be a larger problem because they are not monitored as stringently as the larger operations.

The liability for the manure, because it is injected by the company, will be totally held by Pipestone. In the nutrient agreement it is stated that agronomists will dictate the amount on nutrients that can be applied to land based on nutrient removal. This is all part of the manure management plan that the company will use in the permitting process with the Missouri Department of Natural Resources. Any over-application of manure will therefore be in violation of the plan and subject to the DNR enforcement.

The nutrients produced by this facility will be a great asset to producers who use this on their operations. Several producers have requested access to these nutrients, just like I have. In my calculations, the value of the manure injected into the soil will be between \$100-\$150 per acre annually.

As a row crop farmer, I can see the advantages to the nutrients coming from the swine operations. These nutrients are injected directly into the soil which will limit the effects of odor and runoff as compared to nutrients from manure spread on top of the ground. By injecting the manure into the soil, a much greater percentage of the nitrogen will be captured and saved for the crops instead of volatilizing into the air. It is this volatilizing that creates the odor.

In completing my evaluation, I contacted Jamie Burger the presiding commissioner of Scott County, Missouri. Knowing that Pipestone had a facility there, I wanted to get his impression on this business and how they had been accepted in the county. Commissioner Burger stated that before start of the project there were numerous vocal objections to the facility. Most complaints were about the possible smell, ground water contamination, and busy country roads. He stated that most of the complaints didn't even come from the people in the area. Mr. Burger said that most of the issues were based on emotion and not on facts. He gave Pipestone extremely high praise. He recognized that they were a positive asset to the



county and to the community. Burger said that since the operation had started there has not been a single negative comment brought to his attention.

Since visiting with Mr. Burger, I have contacted numerous people who were familiar with this company and their operations and all have given similar recommendations. I am satisfied that this is a quality company whose performance has been proven in the past and I do not look for any unexpected issues to arise in the future. It seems to me that the objections to this facility are not based upon its size, as the facility is very small as compared to many operations. It seems as though the objections are species specific which unduly singles out one sector of agriculture.

We must all be careful when it comes to these types of attacks, for today it may be swine, tomorrow it may be poultry, and the day after that the cattle industry. As the use of confined livestock production agriculture becomes more prevalent we all need to take the time to study the facts like I did. Ask logical and pertinent questions. Weigh the good versus the not so good. Only with this knowledge can a person truly make an informed decision.



GIBSON INSURANCE GROUP, INC.
P.O. Box 795
TIPTON, MO 65081

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