Positioning the University for the Future

Proposal Number

A&IR (Section A) OSC Proposal 5 (3) and NASU (Section B) OSC Proposal 7

Proposal

A&IR (Section A) Proposal 5 (3): Interim Provost/Dean will submit a proposal to address consolidation of farm activities and operational budget deficits by September 30, 2009 with implementation spring 2010; and

NASU (Section B) Proposal 7: The appropriate dean and director for the area will submit a proposal to address consolidation of farm activities and operational budget deficits to the Interim Provost for review with a final proposal to the President by September 30, 2009 for implementation beginning spring 2010.

Report

The subcommittee for consolidating farm activities was created to respond to the Positioning the University’s Future report ([http://www.mtsu.edu/strategic/summary_reports.shtml](http://www.mtsu.edu/strategic/summary_reports.shtml) (See May 21, 2009 summary report). The subcommittee included Tom Cheatham, Warren Gill, Tim Redd, Becky Cole, and Watson Harris. The subcommittee’s recommendations for farm consolidation are included below.

As requested, the subcommittee reviewed the current farm activities and budgets. Farm activities currently occur on several tracts of land, each with a specific farming purpose. The subcommittee considered each tract of land and purpose to develop a long-range plan for the consolidation of all farm activities in the area of the Guy James Farm. The Guy James Farm is not large enough to satisfy all these specific farming purposes; however, with the recommended farm management techniques, additional academic programs and revenue producing activities, and eventual long-range purchases of land in close proximity of the Guy James Farm, all farm activities could be consolidated.

Farm tracts and activities include

- Asbury Road across from Interstate I24 Dairy Unit – row crop land: corn, soybeans, wheat
- Hwy 231N – swine and beef cattle (32 acres beyond this with agreement with state)
- Sam Jared Road behind VA Hospital – Beef cattle (area beyond this used but owned by the city)
- Guy James Farm – under development
- Manson Pike – current dairy unit to be relocated to Guy James Farm
- Stark Agriculture Building on campus – milk processing

Below is an analysis of end of year balances for the Farm Laboratory budget for the past five years. While the farm had positive year end balances on both the revenue and expenditure sides in 2004-05 and 2005-06, this has not been the case for the past three years. However, it appears that corrections have already been made beginning in 2008-09 to reduce expenditures while focusing on increasing revenues. Farming productivity and profit margin are influenced by unpredictable or uncontrollable circumstances
such as the weather or market supply/demand factors. The Provost Office will continue to work with the Dean and Directors of the School of Agribusiness and Agriscience (ABAS) and Farm Laboratory Operations to bring the budget into balance by both reducing expenditures, where possible, while raising the profitability of the farming operations.

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<th>Summary of Farm Year End Balances</th>
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<td>Expenditures</td>
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<td>Revenues</td>
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It should be noted, however, that the unrelated business income tax provision may limit some of the ideas presented in the attached document.* The Farm Laboratory Operations will need guidance from the University concerning the sale of farm products for profit as we proceed to raise the profitability of the farm operations.

In 2004, MTSU purchased a new farm, often referred to as the Guy James Farm. This farm is located within 5 miles of campus and is of sufficient size (435 acres) and quality to be able to sustain a significant educational farm laboratory. Since the current dairy is not conveniently located, it has been decided that high priority be given to relocating the Manson Pike “Stark” Dairy Farm Laboratory to the new farm. The portion of that farm on the west side of the Interstate will be sold at some point in the future. The new farm is not large enough and does not have enough suitable land for a complete consolidation of all farming operations. A proposal was developed and submitted in April of 2005 that included the purchase of an adjoining farm (the Taylor Farm). The purchase attempt failed so the current plan will be to consolidate those portions of the farming operation that can be successfully moved in the foreseeable future and develop new farm laboratory enterprises that will enhance student experiential learning while also contributing to the sustainability of the overall operation.

Recommendation for a sustainable path for consolidating MTSU farm laboratory operations:

Implement the Plan for Farm Operations at New MTSU Farm developed by ABAS based on the primary goal of farm operations: the education of students in ABAS. See attached plan.

*The Federal Income Tax laws have traditionally exempted from tax those organizations whose activities benefited society, a category which included colleges and universities. An entity which met the requirements for tax exempt status was not taxed on any income, even from business activities. However, Congress enacted legislation in 1950 which taxed the "unrelated trade or business income" of a tax exempt entity, although it did not prohibit tax exempt entities from engaging in business activities. This legislation was intended to prevent unfair competition by tax-exempt organizations with tax-paying, commercial enterprises. In fact, the impetus for the legislation was commercial activity by a state university.

Although the policy behind the tax is the elimination of unfair competition between tax-exempt and taxable entities, demonstrating that an activity does not compete with a taxable business is not sufficient by itself to avoid application of the tax. Also, the activity need not actually generate a profit; only the PURPOSE of generating profit is required for the activity to be a trade or business.

A regularly conducted trade or business is subject to tax if it is also not substantially related to the exercise or performance of any charitable or educational function of the University. To be substantially related, the activity must have a substantial causal relationship to the achievement of an exempt purpose, other than the University's need for income. The activities should be conducted on a scale no larger than is necessary for the performance of the exempt functions. Activities in excess of the needs of exempt functions constitute the conduct of an unrelated business. Second, the University may sell a product or by-product of the performance of its exempt function without being considered to be engaged in an unrelated trade or business if the product is sold in substantially the same state it is on completion of the exempt function, and is not further used in a business activity. For example, the sale of milk produced by a college dairy farm is not an unrelated business, but further processing the milk into ice cream for sale would be an unrelated business.