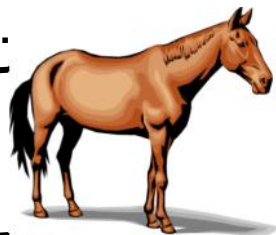


Notes from....



## Serrano Creek Ranch Equestrian Center

SEPTEMBER 2014

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We are continuing with the stable-wide arena rehabilitation program that was started last year, by now moving to the back arena. In September we'll be replacing the rotting wood retaining wall that is threatening to collapse into that arena. We'll be installing a block wall similar to what is at the compost area. This project is expected to take five working days. We'll begin on a Monday, and should be completed by the same week's Friday.

Once completed, the arena will have some remedial re-grading and new footing will be placed. The SCR trainers have located an installer that has a proprietary mixture that is cheaper than what is generally available, and is expected to last 3-5 years. They have all reviewed and approved the material, so we'll be going with their desires. Our maintenance staff is always stretched pretty thin, so going with the supplier / installer that is only slightly more expensive, will allow us to remain focused on the daily duties of the stable. It is planned for the footing work to be completed in October. The two projects combined will be \$19,000.

We continue to strive to maintain the stable, but it seems that each month it is a challenge to pay the bills, let alone make any improvements. All that it takes is a few unexpected expenses such as in May, when the wheel snapped off the white tractor (\$4,200) and the emergency eucalyptus removal (\$4,600), that any budget plans go out the window. As the years roll by, we're having more and more of the months that we come up short, and fewer months we have a surplus to offset those tough months. While we made a revenue neutral adjustment between board and feed a few years back, our true last increase for the board portion was in 2008. While inflation has been mild, it does have an erosive effect when we go six years without any adjustments. Each year we have less and less

real income to work with.

Benchmarking is an important test to see if one's thoughts have any grounding in reality. In June of this year, our budding business graduate Lupe, did a survey of the prices charged at stables throughout the county. As a standard comparison, we used a 12' x 24' half covered stall with alfalfa feeding (not cubes). And yes every stable has its own unique program with specialized cleanings, feedings, arenas, etc., at the very least this gave a general idea where we stand as compared to the county's stables. Here are her results.

<u>STABLE</u>	<u>RATE</u>
RANCH SIERRA VISTA	\$430
SYCAMORE	\$435
HUNTINGTON PARK	\$535
PEACOCK	\$595
RANCHO DEL RIO	\$440
ANAHIEM SADDLE CLUB	\$475
TAR FARMS	\$360
SANTIAGO	\$335
CRK TRAINING STABLES	\$430
<b>OC Stables Average Value</b>	<b>\$448</b>
<b>SCR</b>	<b>\$396</b>
<b>Difference</b>	<b>\$52</b>

The average charge, drawing from all public stables that we could reach, was \$448 per month. The current charge at Serrano is \$396. Roughly speaking, if we were an average stable, we are charging \$52 less per month. Now this explains the financial challenges that we face each month. With that \$52 we could do a lot, and hopefully be better than average. As it stands now, our prices are so under what it takes to run a stable, that we are digging a deeper hole

for ourselves each month.

While inflation has been mild, the same can't be said for hay prices. In the last 12 months, alfalfa prices have increased by 24%. There was hope that this last winter would have restored the water levels, but alas that hasn't come to pass. Alfalfa is one of the thirstiest crops grown. In a year's time, a field will require 76" of irrigation. That 76" can come from rainfall or irrigation. Our hay is grown in the Imperial Valley, so other than the few inches that falls naturally, the 95% moisture demanded comes from irrigation. Hay that is grown in cooler parts of the state uses less water, but then grows less. The chart below shows the average water demand throughout the state for the various crops.

For many Southern Californians, the

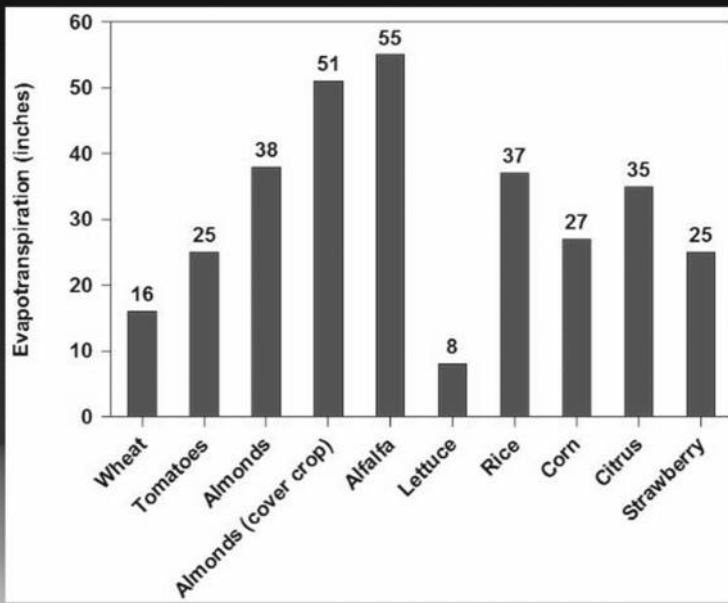
to use their reduced water supply on a smaller acreage. And some farmers are just selling their annual water rights outright to urban areas. With less alfalfa grown, buyers are bidding up the prices.

Coupled with this is that many other countries with growing populations have figured out that it is cheaper to buy the thirsty alfalfa, than to build the irrigation infrastructure in their home countries to grow their own. So while prices continue to climb here in the states, foreign buyers still see our alfalfa as a bargain.

This explains the 24% increase in alfalfa and bermuda prices in the last 12 months. In the case of these two forages, we pay by the ton and feed by the pound. Orchard and timothy prices have climbed even more because we are forced to by the imprecise unit of a "bale". While the per bale price has increased only 20%, the secret story is that weight per bale has been reduced. The cost per bale is meaningless when there is no weight standard. When we first started buying the baled forages, their average weight was around 100 pounds, and this is what we had assumed it was currently. Testing of the last few loads, resulted in an average of 80 pound bales. So while the per bale price over the last year has increased 20%, adding the reduced weight per bale, results in a true increase of 49%!

The cost of feeding your horse is part forage and part labor. To raise the feed prices between 24-49% would be more than folks can handle. So while there is little we can do to completely recover these higher costs, we can reduce the labor portion to partially offset these increases. Historically three employees could feed the stable in 40-45 minutes. Essentially they would go down the aisle, and toss the feed as they walked nonstop. Over the last few years, the "feeding recipes" of many horses have become a multi-step process. As a result of more complicated feeding regimes, that time has ballooned to 60-75 minutes. We have many horses that now require multiple forages at each feeding, soaking of feeds, and placing feeds in specialized bags, bins, etc. What happens is the driver of the feed cart and the 1<sup>st</sup> feeder now must wait while the 2<sup>nd</sup> feeder carries out something that would be daunting even for the Food Network to televise. So for example if it takes an additional 30 seconds for a "deluxe feed service", this means that the

Evapotranspiration of selected crops



drought message rings hollow. This is because over the last decade, local and regional water districts have been on a construction binge of building reservoirs, reclaimed water systems, and aggressive rebate programs. To the credit of all these efforts, the stored capacity has carried us through. But for most of California that relies on annual rainfall amounts, the drought is very real. California farmers have been planting other crops that are less thirsty in an effort to stretch their curtailed water allowances. Others are following larger percentages of their farms,

labor costs is increased by the following equation.

$$\begin{aligned} &.5 \text{ minute per feeding} \\ &x 3 \text{ workers} \\ &x 3 \text{ feedings per day} \\ &x 30.5 \text{ days per month} \\ &\underline{x \$21 \text{ full labor costs}} \\ &= \$48 \text{ monthly additional labor} \end{aligned}$$

In the past the 1<sup>st</sup> feeder would feed a few horses on the 2<sup>nd</sup> feeder's side, while the 2<sup>nd</sup> feeder fiddled with the specialized feeding recipe. But we have abandoned that practice because confusion arose on which horses were fed by whom, and inevitably a horse was sometimes missed with the crossing over. Now each feeder is responsible for his side, and we are able to hold him accountable if there is an error. This practice has dramatically reduced missed feedings.

So effective October 1<sup>st</sup>, the labor for tossing into the feeder a single feeding is included in the feed price. If there is any blending of feeds, opening and stuffing hay bags, soaking, unlocking / unstrapping containers, or any other time consuming function, an additional \$9 per feeding will be added. This is why many other stables feed cubes on a twice daily program, because of the simplicity and speed. We have gone to feeding only baled forages, but with the increasing effort of dealing with the growing specialized routines, we must at least partially recoup the costs of doing so. Even with the three additional charges, we are still losing \$19 per month (\$48-\$27=\$19).

If we went back to using a cubes-only feeding strategy, there is no need to ever change individual horse feed schedules. Back in the 80's cubes were our primary feed, we didn't even have feed tags for the stalls. Still today, a vast majority of owners keep a consistent feed. Yet there is a significant minority that consistently are changing their horse's diet. In a typical month we'll change the feeding of 33 horses. To change the feed requires not just the time to make the tag, but the existing accounting charge must be cancelled and prorated, and a new feed charge inputted and prorated as well. If the tag is not changed immediately, a call comes into the office, and a staff member has to go to the stall and verify if in fact it was put up, when it was put up, who put it up, who didn't read the tag that was memorized from the historical feeding. At the very least the administrative costs are around \$7-10 each, or

around \$250 per month. To begin to offset these costs, we will be charging \$5 per feed change if there is more than one change in a single month period.

We will also make it the default procedure to feed only in the feed bin. If you would like for us to feed on the ground instead, we will make a note on the feed tag that it is ok to do so. It's hard for all our employees to memorize 160 nuanced and ever changing feeding programs, as well as all their other required tasks.

It's always good to not only benchmark against other business in your exact field, but other similar fields as well. While Serrano boards horses, what other animal boarding facilities are in the area? It is estimated that there are about 18,000 dogs in Lake Forest. So what do they charge for boarding? Here are the three closest commercial dog boarding facilities:

<u>Facility</u>	<u>Daily Rate</u>	<u>Monthly</u>
Forever Puppy	\$47	\$1,434
My Doggies Daycare	\$41	\$1,251
<u>Paws Pet Resort</u>	<u>\$47</u>	<u>\$1,434</u>
Average	\$45	\$1,373
Serrano Creek	\$14	\$ 425

So boarding a dog measured strictly by cost is more than three times more expensive. Then if we consider that a horse stall is 10 times larger than the typical canine kennel (or a horse weighs 10-20 times that of a dog), the boarding a horse is then 1/30<sup>th</sup> the costs of a dog. This doesn't even consider that these canine resorts don't offer acres of exercising rings. Are you interested in your dog getting some remedial work? 2-two week training sessions at Paws will set you back \$800. This is twice the cost average of horse training, and way less dangerous for dog trainers.

Effective October 1, 2014 our new price schedule will commence. The following page is the revised price sheet. Using the comparison standard 12' x 24' pipe, the new rate at SCR would be \$425 per month. That means we're still charging less than the average stable in the county. Thank you for your understanding.

## Serrano Creek Ranch Monthly Rates

A security deposit of \$300 per stall & \$25 per tack shed is required.

<u>Stall</u>	<u>Price/mo.</u>
24' x 24' Pipe Corral - 1/3 cover	\$334
24' x 24' Pipe Corral - 1/2 cover	\$352
18' x 24' Pipe Corral - 1/3 cover	\$304
16' x 24' Pipe Corral - 1/3 cover	\$302
13' x 25' Breezeway	\$368
12' x 24' Breezeway	\$313
12' x 24' Pipe Corral - 1/3 cover	\$275
12' x 24' Pipe Corral - 1/2 cover	\$293
Box Stall – Standard w/o shavings	\$313
Box Stall – Large w/ o shavings	\$335

### EXTRAS:

Tack Shed	\$ 29
Trailer Parking	\$ 65
Feed Box	\$ 9
Drystall charge – per day	\$ 6

### FEED

Horses are fed three times per day.

<u>Description</u>	<u>--</u>	<u>2.5-3 lbs</u>	<u>5-6 lbs</u>	<u>9-10 lbs</u>
1 Feeding of Afalfa		\$29	\$44	\$70
1 Feeding of Bermuda		\$27	\$42	\$66
1 Feeding of Orchard (market price)		\$37	\$59	\$95
1 Feeding of Timothy (market price)		\$38	\$60	\$97
1 Feeding of Special Feed		\$ 9	\$ 9	\$ 9

**LATE FEES: \$25.00 on all board received after the grace period (10th)**

**INTEREST: 1.5% on all accounts 30+ days late (18% per annum)**

**NSF CHARGES: \$35.00**