

Farm and Ranch Succession in a Rural California County; Extending the Farm Transfer Project

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Introduction

The transfer of a farm or ranch family business to a succeeding generation is one of the critical stages in the life of the business. During the next two decades a large number of farms and ranches will be changing hands. It is also becoming more difficult due to a variety of factors. The processes involved in such transfers have been little studied and there is minimal outreach effort nationally from public agencies such as the Extension Service to help landowners with these issues.

The following is a report on the FARMTRANSFERS project, a collaborative research effort on a global scale. This research has highlighted some of the essential elements of the transfer process in England, France, Canada and the United States. This research effort has encouraged Extension workers to replicate the survey and provide outreach to landowners. There is a need for both research and education for successful agricultural succession to occur.

This paper presents an overview of retirement issues farmers must face. We will report some comparable data from various countries, and relate how Extension can provide services in this area. A survey instrument, developed in England by the FARMTRANSFERS project, was used to ascertain if farm and ranch successors were identified, and to stimulate estate planning. Data is presented from many countries and several states where the survey has been administered.

The genesis of the FARMTRANSFERS research is the survey instrument developed by Professor Andrew Errington, Research Chair in Rural Development, University of Plymouth, England. Dr. Matt Loble, Senior Lecturer in Countryside Management, University of Plymouth, England, has provided analysis of the data, and the implications drawn from such analysis. Support for the Iowa research and for the United States collaboration has been provided by John R. Baker, Administrator-Beginning Farmer Center, Iowa State University. In California, a county agent, has replicated this survey.

In 1991, Professor Errington constructed a self-completion mail survey. In 1993 he replicated the survey in France and in 1997 he again surveyed English farmers. In 1998 the survey was replicated in Ontario and Quebec, Canada. In 2000 a memorandum on understanding was entered into by the University of Plymouth, England and the Beginning Farmer Center, Iowa State University for the replication of the survey in Iowa. The MOU has provided the framework for replications Virginia, Japan and California. Collaborations are planned in Pennsylvania, Germany, Poland, Korea and Australia. The current data set includes the responses of nearly 4,000 farmers.

Why the need for research about farm family business successions and retirement? There are many lawyers, accountants, financial planners and insurance agents that have a myriad of ways to help people transfer assets. Bookstores have entire sections that are dedicated to the subject of business management and estate planning. So, why the focus on farm succession?

First, the transfer of the business to a succeeding generation is a critical point in the life of the business and in the life of the owners and successors. The decisions made, or not made, concerning business succession and the processes employed, or not employed, may well determine whether or not the business continues. Farming and ranching are businesses that include a labor intensive way of life, years of socialization, mentoring and complex family relationships.

A second reason for research into farm family business succession and retirement is the formulation of public policy that will enhance the transfer of the business to another generation. A quick look at other countries shows us that there are a myriad of policies tried. A third is consideration is the ownership of farmland. According to census data, farm family businesses own the vast majority of farmland and family farms are the majority of farm businesses. Farm businesses provide a significant contribution to rural economies and rural communities. Farm businesses have a significant impact on the environment and of water quality.

A fourth reason is the individual farm businesses are faced with complex drivers for change, many of which are internal. With declining profit margins farm business may also be a source of hardship for the families that own and operate the farm business. Lastly, farm family businesses have proven to be incredibly resilient and adaptable. Whether or not these businesses can maintain such resiliency and adaptability in the face of the increasing rate of change and social, economic and environment challenges is an open question.

Development of relevant and applicable educational material is yet another reason. Identification of the “best” practices will help farm business owners develop viable business succession plans. While practices can be described, each family is unique and must choose options to fit their situation.

The FARMTRANSFERS collaboration represents an evolution of farm family business research. Historically, the focus of research has been on the economic issues and economic consequences of farm family business succession planning. Clearly, the economics of the any business succession plan are of central importance. Equally clear, however, is the fact that the economic results of succession planning do not take place in a vacuum. The impact of succession strategies is also experienced by the individuals involved in the implementation of that strategy and rural communities are also affected by the choice of strategies. The choice of succession strategy is affected by the cultural norms, legal systems and societal factors and these factors have been little investigated.

For the purposes of this paper it is necessary to define three terms. These are inheritance, succession and retirement. The definition for each as used herein is:

1. Inheritance: The transfer of land and other farm business assets to a succeeding generation upon the death of the owner of those assets.
2. Succession: The transfer of managerial control of the farm business to the succeeding generation during the life of the owner of the business.
3. Retirement: The withdrawal of labor to and managerial control of the business by the owner.

These terms describe three distinct but related concepts. Retirement is the reciprocal of succession. As the older generation withdraws labor and managerial control the successor provides more labor and assumes a greater degree of managerial control. Of course, because ownership conveys managerial control, inheritance is the ultimate transfer for managerial control to the successor and represents the total withdrawal of labor by the previous owner.

California Methods

The project in California was initiated by Deborah Giraud, an Extension agent who wanted to pilot a service to help landowners with succession issues. Workshops on estate planning had been well attended in the past, but no current outreach was being conducted. Some states have developed outreach programs – the oldest programs were in response to the farm crisis of the 1980s and more recently a movement called FarmLink has been growing. This has grown from an increasing awareness of how difficult it is to enter farming and has stimulated programs to assist aspiring farmers as well as working with retiring farmers whose heirs may have difficulties retaining the family farm. Programs that link aspiring and retiring farmers are in 17 states. Many of the FarmLink programs are small non-profits, while some programs are supported by Cooperative Extension and Departments of Agriculture. Research and outreach projects have been utilizing the FARMTRANSFERS project survey and data.

The California survey was mailed in the fall of 2004 to 943 landowners and had 106 respondents (11%). The average age was 59 years old. 51% has identified a successor, with sons being the highest identified, at 52%, and daughters at 26%. From the mailed survey, six individuals immediately asked for a private consultation on succession planning. Other contacts were made at workshops, and consultations were conducted. A directory of local professionals was created to aide landowners. The Extension agent formulated an educational program to assist landowners to plan for succession and now offers presentations to Extension agents to encourage them to offer these services in other areas.

The respondents in the California survey represented 164,802 acres of ranch and farmland was owned or rented by the respondents. 122,819 acres were owned by this group. The average age of the respondents was 60 years old, with the range being 28 as the youngest and 92, the oldest. 77% were male and 23 % were female. The farm or

ranch is the main occupation for 54%, while 50% reported it is not the main occupation. They were mostly sole proprietors (81%), while 14% had partnerships and 6% were part of a corporation. The respondents have been operating their farm or ranches for quite a few years; 32% for under 14 years, 24% for under 24 years, 16% for under 34 years, 10% for under 44 years, and the rest (18%) for more than 45 years. The largest group was the beef operators (34%); the second largest was horticultural crops (25%). 19% were mixed, which was mostly a combination of beef and timber, with some beef and pasture/hay/dairy. Dairy alone was reported at 25% and timber alone at 2%. 4% reported other, and explained that their land is rented out, mostly pasture land.

Selected Findings

Retirement from farming is very different from retirement from paid employment. Most workers retire at a certain date and, if their job has a managerial function, it is passed to the person who succeeds the employee. Further, a paid employee ceases providing any labor to the firm. Rarely do farmers follow such a pattern. Retirement from farming often involves a period of semi-retirement during which the owner gradually reduces the labor contributed to the business and begins transferring managerial control. There are many mentoring opportunities (another complex human interaction). Table 1 shows the difference in farm retirement and semi-retirement in the countries participating in the FARMTRANSFERS project.

Table 1: Retirement Plans

I expect to:	England 1997	France 1993	Ontario 1997	Quebec 1997	Iowa 2000	California 2005
Never retire	12.90%	6.40%	22.10%	13.30%	27.40%	44.40%
Semi-retire	53.40%	28.90%	44.00%	49.50%	37.60%	35.40%
Fully retire	33.70%	64.70%	33.80%	37.20%	35.00%	20.20%

Note that the proportion of California and Iowa farmers who responded that they would never retire is significantly higher than the farmer in the other countries. Also note that a large proportion of farmers responded that they will spend a significant portion of time in semi-retirement. Not surprisingly, California and Iowa farmer indicated that they will retire and/or semi-retire at a later age than other farmers in the surveyed countries.

Table 2: Average anticipate age of retirement and semi-retirement

	England	France	Ontario	Quebec	Iowa	California
Retirement	62.4	58.7	61.5	58	64.2	66
Semi-Retirement	63	57.7	61.5	58.2	66.4	68

Identification of a successor to the farm business is a key point. The data shows a significant difference between the counties. Table 3 shows that 53% of English farmers had identified a successor while less than 30% of Iowa farmers had identified a successor.

Table 3: Successor identified

	England	France	Ontario	Quebec	Iowa	California
% of farmers with identified successor	53	27	40	43	29	51
average age of farmer	55	41	51	47	54	60
average age of successor	26	23.2	25.4	22.9	31.5	37

Clearly, a smaller portion of Iowa farmers have identified a successor. This is not surprising given the high proportion that say they will never retire and the fact that those who will semi-retire will do so at a later age than farmers in other countries. Note that the lower age of the French farmers could account for the lower percent of those who have identified a successor.

In California, Giraud was interested in the barriers that prevented families from planning for succession. Planning outreach programs was the objective. A write-in question asked for the reason why they had not created an estate plan or succession plan. 43% answered that they needed more information and/or were in the process, 30% said they don't have the time, money or expertise to make a plan, 13.3% were waiting to find a successor or to see what their children wanted to do, 10% felt retirement was too far away to plan for, and 3.3% were waiting on their parents generation to determine who would have the land. Extension agents can assist the 73% who felt they needed more information and expertise through educational programs and can reduce the overall cost by helping families set goals and prepare before they pay for professional services.

There were two other write-in questions. The first asked if there was more than one potential heir do you think it best to keep the farm as one unit, or to divide the property equally between all the heirs. 50% answered that it was best to keep the land as one unit to one heir, 21.2% plan on dividing it equally, 8.75% will sell the land, 6.25% have some kind of partnership or trust to keep the land so multiple heirs can farm and benefit from it, and 13.7% were undecided on what to do.

The second question asked for the respondent's comments about farm succession and inheritance in the USA. 62% made comments about estate taxes; that they should be eliminated or lower substantially, that they are the cause of loss of farmland to farm families. 6.7% commented on the difficulties of farming and ranching as a profitable business, 17.2% commented on the need for policy to support agricultural land owners, especially long term ranch and farm landowners and 3.4% commented on the laws and regulations that impede them in being profitable such as controlling predators or harvesting timber.

As farmers move into retirement or semi-retirement they face several key issues. Among these are adequate and affordable housing, stable income for self and spouse, social contacts, self-fulfillment, adequate and affordable health care.

Adequate and stable income is another important issue faced by farmers when they contemplate retirement or semi-retirement. Tables 4 and 5 show the portion of income and the sources of income that are anticipated by farmers while in retirement and semi-retirement. The more reliance on farm income as a source for retirement income, the more difficult it is for the successor to provide an adequate income for the business and for living expenses. If there is no sale of the land and farm assets, it is hard for the next generation to become landowners. However, another question we should have asked would have been the willingness to lease to young farmers. In California, many respondents left this part of the survey blank, and it is difficult to come to any conclusions.

Table 4 Income sources when fully retired

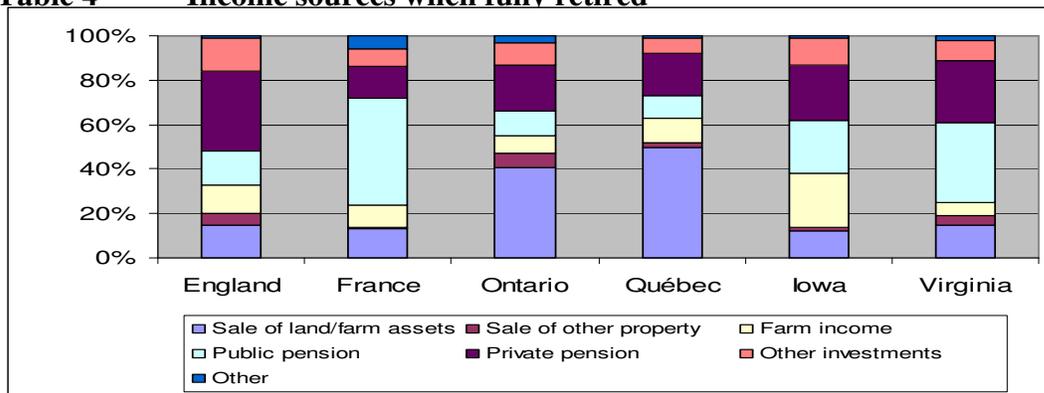
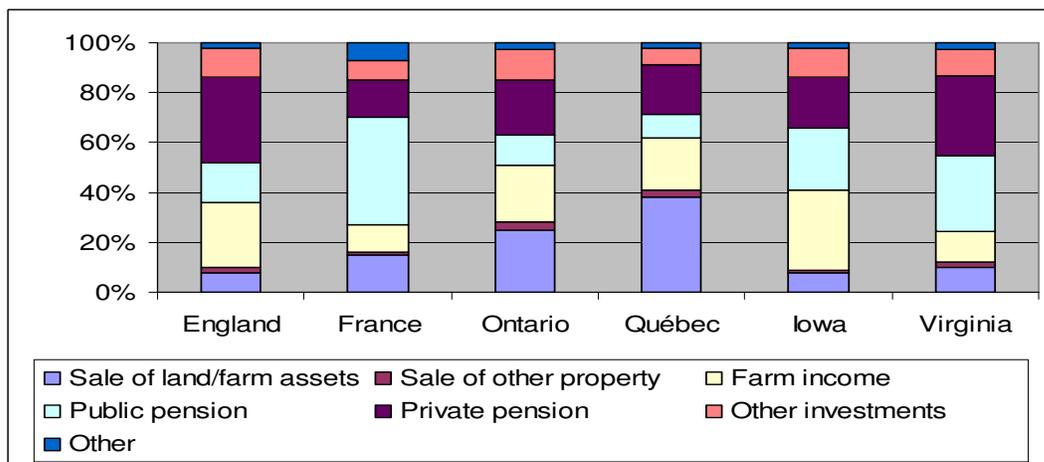


Table 5 Income sources when semi-retired



FARMTRANSFERS also asked respondents with whom they discussed their retirement plans. The two most prevalent responses were “family” and “no one”. The most often consulted professional was their accountant and lawyers came in fourth as a source of retirement information. Table 6 sets forth the findings in greater detail.

Table 6: Sources of retirement information

	France	England	Ontario	Quebec	Iowa	California
Family	55.1	27.8	63.0	63.3	54.5	37.0
Lawyer		14.3	6.5	9.6	10.6	16.0
Banker	9.1	6.8	9.8	7.2	13.6	4.0
Accountant	28.4	39.1	38.0	33.1	18.2	18.0
Farm Consultant	20.6		5.4	11.4	4.6	0.0
Other Ag. Advisor	8.2	3.8	6.5	6.0	3.1	
Other	5.8	6.8	9.8	6.0	1.5	9.0
No one	28.0	44.4	28.3	27.7	32.3	15.0

The FARMTRANSFERS project also researched the extent to which managerial authority is transferred to the successor. Our data indicates that managerial authority over daily activities is more apt to be transferred to the successor than the transfer of managerial authority over financial matters, such as paying the bills.

Conclusions:

The FARMTRANSFERS project demonstrates the need for additional research on the strategies employed by farmers when formulating succession and retirement plans. Such research can identify the best practices that are employed in devising workable farm succession and retirement plans and can assist Extension outreach efforts to families. If more agencies work with families to plan for successful transfers of our working lands, the future may hold a sustainable rural economy for the next generations.

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