

# FARM AND RANCH SUCCESSION

## Outreach and Research Opportunities For CE Advisors

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Farm and Community Development Advisor

Small Farm Workgroup Meeting June 2009

# Is this an area you could add to your Extension program?

- I believe that it is, and that it is a useful and valid Extension program
- I have a 20% Community and Economic Development assignment in addition to my Plant Science assignment.

# WHY?

- To help agricultural land stay in production
- To help the next generation inherit or buy land that they can afford
- To help our county's agricultural future
- To honor and respect our retiring farmers

# What I am doing.....

- Looked at Extension materials nationwide
- Conducted a survey in my county. Farm Transfer Survey
- Asked the research question “What are the barriers for farmers to create succession and estate plans?”
- Wrote up some case studies of successful Succession and FarmLinks models
- Prepared a directory for my county of professionals
- Holding workshops for farm and ranch families periodically. Includes writing grants for these workshops.
- Wrote an article on how to deliver these programs. (sent to ANR editors recently)

# What I am doing.....

- Offering my services to families ongoing
  - to help them get organized and set their goals
  - to facilitate family meetings if wanted
  - to act as a “personal coach” to help them meet their goal of getting their Succession and Estate Plan Finished.

# Current Research on Farm Succession

Farm Transfer Survey – Humboldt Co. 2004

I added the question what are the barriers you encounter to create your farm succession plan.

Farm Transfer Survey  
Professor Andrew Errington  
Research Chair, Rural Development  
University of Plymouth UK  
with

Dr Tomohiro Uchiyama  
Visiting Research Fellow  
University of Plymouth UK

## Collaborated with California FarmLink

- Linking
- Assistance
- Farm Finance

## Goals of Conference in Farm Succession Planning

- Why do it? ( Motivate People )
- Keys to successful plans
- Tools and resources

# Statewide CONFERENCE #1 Jan.+Mar.



## California Farm Succession Conference

### *Practical Tools and Concrete Steps for Handing Down the Family Farm*

This two part conference will offer farm and ranch families an opportunity to learn from experts how to plan for a successful transition to younger family members or linked partners. Communication, goal setting, family meetings, tax considerations, conservation easements and other tools will be taught. Examples of successful transitions will be presented. Facilitated discussions will cover when to bring in partners, sell or gift the farm, and what to do if no heirs want to farm. College-age agricultural major students are encouraged to bring parents and grandparents.

**Location:** Sacramento

**When:** January 12-13, 2007  
and March 16-17, 2007

**For details visit:**

[www.californiafarmlink.org](http://www.californiafarmlink.org)  
Or call Deborah Giraud at  
707-445-7351

**Sponsors:**

University of California  
Cooperative Extension  
California FarmLink  
The Agricultural Leadership  
Program



**This unique conference is:**

- Designed for 2-3 generations within a family
- Interactive
- Action Oriented ~ leave with a draft plan for "Handing Down the Family Farm"

### **Bonus! Attendees can receive subsidized follow-up technical assistance at their farm.**

*California FarmLink is a non-profit organization working state-wide to build family farming and conserve farmland by facilitating inter-generation farm transitions, and linking aspiring and retiring farmers.*

### **REGISTRATION INFORMATION**

The registration fee is \$70 each for first two people, and \$20 each person thereafter (includes coffee breaks, lunch, two dinners and materials)

Registration deadline: December 22, 2006

Please call the hotel directly for rooms before Dec. 22, 2006. Hilton Arden West, Sacramento, 916-922-4700. After December 22, please call 916-928-2202 to find out space availability.

***For more info, visit: [californiafarmlink.org](http://californiafarmlink.org)***

Register by mail:

Make check payable to UC Regents and mail along with completed registration form to:

Farm Succession Conference  
c/o Ag Leadership

1300 National Dr. Suite 180, Sacramento, CA 95834

e-mail Deborah Giraud at: [ddgiraud@ucdavis.edu](mailto:ddgiraud@ucdavis.edu)

Some scholarships are available. Call Steve Schwartz for information.



**CONFERENCE #2    Jan. and March 2009,**

**Series of three locations; Fortuna, Santa  
Rosa, San Luis Obispo**

**Sowing the Seeds  
of Farm Succession:**  
*Planning the Transition  
to the Next Generation  
of Family Farmers*

**Funding for conferences was obtained  
from the Western Risk Management  
Education funds, Spokane, WA**

**First one went to UCCE, Second one  
FarmLink was the applicant.**

# Aging of the Farmer Population

- Number of farm operators under age 35 declined 34% between 1992 and 2002
- California Farmers 65 and older outnumber farmers under 35 by 8:1
- Number of California farmers (owner-operators) dropped 11% between 1987-1997



A farm is five times more likely to be passed from generation to generation than a non-farm business.

This makes **succession** critical to the economic viability of the farm business and the continuation of the family farm.

*(Laband and Lentz 1983).*

*(Russell et al. 1985; Weigel et al. 1987).*

# My Extension Program Services for Farmers

- 1. Linking FarmLink I tell them about**
  - Assistance finding land or compatible farmers
- 2. Workshops and Individual Assistance I organize these with collaborators**
  - Information on succession planning, mentoring, business plans, taxes, farm financing, land tenure options and easements
- 3. Individual Development Accounts (IDA) I am planning a new program in Humboldt Co. With the Economic Development non – profit called Arcata Econ. Dev. Corp**



# Individual Development Accounts (IDAs)

- A matched savings plan - farmer contributes \$100 and FarmLink OR other agency contributes \$300 monthly for 2 years
- Training in financial literacy, marketing etc. EXTENSION and SBDC
- Puts participants in position to acquire larger financing from traditional lenders
- Eligibility: beginning farmer, lease in hand or own less than 10 acres, little savings, no recent defaults on ag loans

# Four Essential Types of Planning for Farmers

- Business Planning (Includes new crop ideas, marketing, new ventures etc.)
- Retirement Planning (refer to financial planners)
- Succession/Transfer Planning (talking with next generation)
- Estate Planning (refer to estate planners)

# Farm Succession Planning

Farm succession planning, or farm transition planning, is preparation to ensure that the farm management and assets are transferred in such a way that the business remains at least as viable for the next generation operator as it is currently, while meeting the needs of the retiring farmers.



**Succession** is multi-staged process that may take many years.

**Succession** begins before heirs enter the business with the socialization of children into farming and in some cases is completed through inheritance when the younger generation is middle aged.

This prolonged period of intergenerational involvement may pose problems for family relationships, the farm business, and the completion of succession.

(Anderson and Rosenblatt 1981, 1985; Salamon et al. 1986)

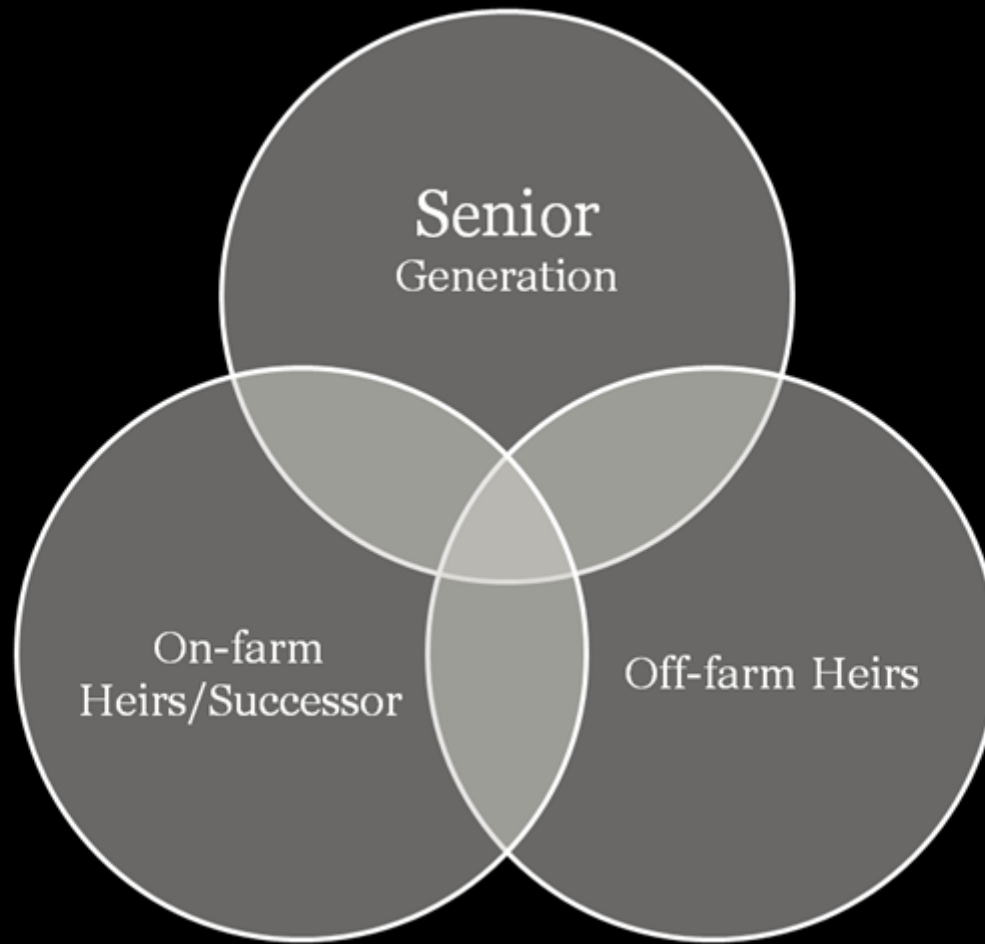
# Motivations For Timely, Successful Transition

- Desire to see the next generation enter and succeed in farming
- Desire to see the land stay in agricultural production

# The Farm Transition Team May Include:

- Family
- Accountant
- Financial/Estate Planner
- Attorney
- Mediator
- Land-use Planner

# Successions Goals Vary Based on Perspective of the Stakeholder



# Farm Transition Dilemmas Every Family Must Resolve

- Retaining an adequate retirement income
- Identify qualified successor(s)
- Being “fair” to all children/heirs
- Pass on farm as a viable entity  
(a business not a few pieces of pie)
- Minimizing debt for farm business *and* successors



# Issues That Affect Success of Farm Transitions

1. Family communication and decision-making
2. Early planning and early identification of successor
3. Management training for successor(s)
4. Vision – creating a “mental picture” of a successful transition for your family Professional assistance where and when appropriate

## Other Key Factors:

1. The agricultural and real estate economies
2. Economic stability and structure of the farm

# Key Tools

## Communication:

- Family Meetings (facilitated)
- Mediation when necessary

## Management Transitions:

- Sharing responsibilities
- Sharing decision-making
- (Least expensive tool , may be most difficult to utilize)

## Land Transition:

- Lease
- Lease with Option to Buy
- Installment or Land Contract Sale
- Purchase
- Tool: Agricultural Conservation Easement

## Estate Planning:

- Life insurance
- Trusts
- Life Estates
- Gifts

# Farm Transition Process

1. Assess Current Situation
  - Financial and production analysis
2. Communicate Vision, Values, and Goals
  - Future potential of the farm, family communication
3. Develop the Transition Plan
  - Form a transition “team”
4. Implement the Transition Plan
  - Legal and financial contracts
5. Revisit the Transition Plan
  - Make room for changes and an “out”



# Income/Labor Transition Plan

- How will income & labor be split?
  - Enterprise
  - Shares
  - Wage
  - Combination
- Timeline for split income and labor
- Job description

# Management Transition Plan

- How will management be split?
  - Enterprise
  - Whole farm
  - Farm activity (marketing)
- Timeline for management transition
  - Learning or testing phase
  - Completion date
- Parent/child relationship vs. business partner

# Ownership Transition Plan

- Gift
- Sales
- Inheritance/will
- Timeline

Consider consequences  
for positioning heir to  
secure financing later.  
Not just tax  
consequences!



# Ownership Transition Plan

- Order of Asset Transfer

Operating Inventory 1

Breeding Livestock 2

Machinery 3

Buildings & Facilities 4

Land 5

# Buy-Sell Agreement: What is it?

- A binding contract between business partners (& corps).
- Can be part of business structure agreement or stand on its own.
- A “pre-marital” agreement between you and co-owners.



# Buy-Sell Agreement: What Does it Say?

- Who can buy a departing partner's share.
- What events trigger a buy-out.
- What price will be paid for a partner's share & method of payment



# FAIR DOES NOT MEAN EQUAL

What is fair treatment of a beginning farmer in relation to non-farm children and heirs?

The answer owners come up with can result in bitter feelings among family members and failed farm businesses.

# Transferring Responsibilities

- What is the senior generation really ready to let go of now?
- What will the next generation need training with to take over successfully?



# Positioning Successor to Be Able to Buy-out Off-Farm Heirs or Parents

- Need time to plan and position themselves
- May need to position themselves to secure financing in their name
- Sale of a conservation easement can take several years

# Leasing a Piece of the Farm to Successor

- Try something different in terms of cropping practices or livestock management
- Successor gets a feel for leadership: does he/she really want the reigns and the hot seat
- Shows off farm heirs that successor is developing skills, deserves respect and is earning the chance they'll later get.

# Definitions of Sweat Equity

- Work, especially manual labor, performed in return for a share of ownership.
- Equity acquired by a company's executives on favorable terms, to reflect the value the executives have added and will continue to add to the company.

# Sweat Equity

Family members who work on the farm sometimes paid less than what the operation would have needed to pay a stranger to handle the same function.

Principals can take this into consideration when determining what is fair treatment of the heirs.

A Means to Value Contribution of On-farm Heir Beyond Compensation They Already Received (Wage/draw, insurance etc.)

# Sweat Equity Valuation

| <b>Job/<br/>No. of Years</b>                      | <b>Market Rate</b> | <b>Actual<br/>Pay/Draw</b> | <b>Sweat<br/>Equity</b> |
|---|--------------------|----------------------------|-------------------------|
| <b>Farm Hand<br/>5 Years</b>                      | <b>\$18,000</b>    | <b>\$18,000</b>            | <b>0</b>                |
| <b>Field<br/>Manager<br/>10 Years</b>             | <b>\$30,000</b>    | <b>\$25,000</b>            | <b>\$50k</b>            |
| <b>Farm Mngr.<br/>/Marketing<br/>Mngr. 10 Yrs</b> | <b>\$40,000</b>    | <b>\$30,000</b>            | <b>\$100k</b>           |

# Valuing Buy-out Price if All Eggs in One Basket (one parcel/farmstead)

|  |   |
|--|---|
| Appraise the Value of the Property at Present                            | \$1,000,000                               |
| Subtract Taxes That Would be Paid if Farm Sold and Each Heir Got a Share | - \$ 200,000                              |
| Divide By Number of Heirs  | \$ 800,000                                |
| Sub-tract Sweat Equity From the Off-farm Heir's Piece                    | \$ 400,000 per heir<br>- \$ 150,000       |
| Set the price and start the purchase possibly in installments            | <hr/> \$ 250,000 buy out of off-farm heir |

This presentation was put together with resources from programs including:

- Iowa Farm Beginnings Program, Iowa State Univ.
- Various Extension materials from Canada
- University of Wisconsin Center for Dairy Profit
- University of Nebraska Coop. Ext.
- Pennsylvania FarmLink
- “Passing Down the Farm”, Jonovic and Messick, Jaimeson Press, 1996