

“How to Provide Extension Programming in Farm and Ranch Succession”

A Guide for Cooperative Extension Agents and Advisors

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Introduction

This booklet is based on an extension agent’s experience offering new services to landowners in her county. It is hoped that others will be inspired to offer programs in farm and ranch succession.

Why offer this service?

A profitable, owner-operated system of agriculture is necessary for the economic well being of rural communities. What does the future hold for our farmers and our farmland? There are twice as many farmers and ranchers in America over sixty years old as there are farmers and ranchers under thirty years old. Many farmers will retire in the next two decades and younger people are needed to carry on these businesses.

Young farmers have little opportunity to enter farming, and even those whose parents have a farm may lose the opportunity because of poor succession and estate planning. Several surveys have found that as many as 64% of landowners do not have estate plans. Careful planning is needed for families to provide retirement for the senior members and farming opportunities for the next generation. Landowners are concerned about farm succession but a minority have prepared for the transfer of land and the business to the next generation. Stressing the difference between managing a business and ownership of land is important for families to consider and plan for.

There are many reasons that farmland goes out of production. A vulnerable time is when land passes from one generation to the next. Poor estate planning can lead to land being lost to agricultural production. A common scenario is when a farming heir must make payments to their siblings, or take out loans to continue farming while they pay off the other heirs. This makes it very difficult to be profitable and eventually they can be forced to quit farming. Another common scenario occurs when siblings (the heirs) must sell the land to pay estate taxes. Landowners can plan ahead and leave an estate plan that supports a farming heir so that the land will stay in agriculture and the farmer is left in the best possible way to be successful in farming. The non-farming heirs need to be considered also. Each family is unique. Succession planning includes business planning, estate planning and retirement planning. Its multiple approach makes it clear to families that this is a process, that it will take time and dedication to create plans, communicate with all involved and to create legal documents. Revisions may be necessary.

Cooperative Extension programs nationwide offers many services to landowners, farmers and ranchers in all aspects of agricultural production and economics. In some

counties, CE collaborates with other community groups and addresses the challenges of farm succession. Many offices have held estate planning workshops. The farm crisis of the 1980s, rising costs of doing business, real estate prices, and the emergence of land trusts over the last decade has spurred the movement to plan for farmland succession. New groups have emerged to assist beginning farmers. Non-profit FarmLink groups across the country are seeking ways to help both new and retiring farmers. Some landowners do not have heirs who want to farm, yet they feel strongly that the land should remain in agriculture. These groups, and Extension, can help them find and support successors.

What can the Extension service do to help this process? We can help landowners retain land in agricultural production rather than see retiring farmers sell parcels to non-farming owners. The public good resulting from these efforts can help the rural agricultural economies in the long run. Many surveys have taught us that citizens value our farmland for many reasons; open space, wildlife, rural character as well as acknowledging that agriculture is a vital part of our economy. Many County general plans have strong language supporting the future of agriculture. The reality is that change does happen over time to our productive lands, but succession issues do not have to be the cause.

Succession planning is a complicated process, and people can easily feel overwhelmed with the decisions that need to be made, as well as the paperwork, legal matters and fees necessary to establish trusts and other estate planning tools. It takes time, and should be seen as a process. **Extension workers can help landowners with goal setting, family meetings and provide the education needed to be well informed.** Those who have worked in this area are emphasizing the need for assistance to landowners. We can serve our senior citizens who have farmed or ranched all their lives and given much to our communities. We can serve some who no one else is reaching out to, and help protect the future of farming in our communities.

Educational Outreach

Creating Extension materials for landowners on farm succession is a worthy endeavor. Much already exists, but is scattered. A binder in each Extension office with articles and resource lists would be helpful to anyone getting started. Being able to hand a farmer some articles and a place to start is important. A web site has been created to share useful resources to producers. <http://ucanr/groups/succession>

Create a local directory of professionals.

Landowners often express frustration about not knowing who to contact to get started on their plan. A major barrier to getting started is a lack of a connection with local professionals. The Extension Farm Advisor prepared a directory for the county. This directory is a list of professionals with descriptions of their experience and a self-statement that provides personal information about them. Being a public agency, care was given to the method of inclusion in the directory. Everyone in the phone book listed under attorney, accountant, investment broker/financial planner, appraiser, mediator, and

consultants for land, water, and forestry was sent a letter describing the project and the goals of the directory. Those who returned the directory form, and signed a permission statement, were included in the published directory. We printed 50 at a time, and could add professionals who hadn't yet heard about the project. Having the directory made it easier to get away from the difficulty of answering landowner's questions about whom they could go to. We should not recommend any individual over another.

Workshops

The goal of our workshops is to stress the importance of prior planning and to motivate participants to start working on their plans. With prior planning, heirs may not have to sell agricultural land to pay estate taxes and young farmers and ranchers can be successful.

In the early years, we offered all day workshops on estate planning. Participants seemed overwhelmed and there were no follow up services. Workshops on estate planning and farm succession are helpful as a general introduction to many complex ideas. Participants walk away with printed materials and some ideas of resources to find on their own. The people who participate are those who have a strong interest and are already motivated to come to a meeting. We do not reach many who could use and need the information. The next steps, for those who are motivated to accomplish them, appear difficult to accomplish alone. I have spoken with several landowners who attended workshops and they said they learned a great deal, understand the importance, but have done none of the suggested actions.

Another approach was to offer three-hour workshops and have follow-up individual meetings. The best attended was in a dairy valley where over 100 people attended. It started at 11:30 am with a free lunch, and the speakers were finished by 2 pm. Participants were given the opportunity to request direct services and follow up occurred. Some land trusts and public agencies set up tables and handouts were made available. It did not overwhelm them, but also did not offer the extent of information and intergenerational discussions we know are valuable. Another example of a successful workshop is one that took place six months later; the time was 1 to 4 pm with snacks served. A smaller group attended but questions were in depth and more interaction was possible. Two couples traveled two hours to attend. We have demonstrated the need for these introductory workshops.

Conferences

The next evolution in information delivery was to create a two-session conference. Families were invited to attend together, and discounts for the third and fourth family member were part of the registration process. We thought that with longer sessions we could help families practice communication skills, and actually have them start creating draft succession plans. We held a Friday night session and all day Saturday. Time was available for break-out sessions which are extremely useful. We had sessions for the older generation and the younger generation. After six weeks, another session was

held with the same participants. Again, the schedule was a Friday night and all day Saturday session. In between these sessions, families were given homework to do, each generation had specific homework. Business topics, task lists, and a family meeting using the communication skills we focused on in the first day are examples. The first conference was a great success. 104 people attended. A useful outcome for many people is understanding that they are not alone in their struggle with these issues, and sharing with others in similar situations. The breakout sessions were highly rated in the evaluations. While the younger generation had heard many of the conflict resolution and communication topics before, they were enthusiastic that the older generation was learning the techniques with them. Specific detailed techniques within the estate planning issues were addressed, with case studies as part of the handout material. The agendas for these longer meetings can be found on my web site. Follow up technical services were made available from California Farmlink and independent consultants. Quite a few families availed themselves of these services.

Outcome of Conference Example:

A family consisting of a farming couple with two grown daughters attended the conference. One of the young women is the on-farm heir; the other is the off-farm heir. The wife has a full time job which has supported the family with cash flow and health insurance, typical of many small family farms. The father related to me how the conference helped them. They have a parcel in town they are considering building an ag processing facility on. The off-farm heir wanted to hurry that along, borrow money and start the operation. She works full time about one hour away, but had plans for the family business. Her sister is working for \$10.00 an hour while she has a professional job. After the conference she realized that they needed a full business plan for the new enterprise as well as long term planning for the succession. The father did not want to take on new debt, in fact still has mortgage payments and asked the question; if the new business started generating income, who would get it? Their family meetings starting to deal with real issues. Meeting other young off-farm heirs and relating her frustrations on the slow progress of their processing facility idea and succession issues made her understand fully the need for careful planning and good family communication. They have decided to slow down and put off the building of the new facility until this work is done and plans made. Meanwhile the father was inspired to investigate conservation easements further after the conference. It is a topic he had read up on over the years, he now is solidifying a vision for his community and wrote it up for the local land trust. Their staff is pursuing possibilities; a process that could take two to three years or more.

Extension Challenge: How do we evaluate these personal outcomes of our conference? The family was greatly appreciative of the conference and its affect on the family dynamics, planning process and overall knowledge around succession. How to measure this for our supervisors and administrators is a challenge. The on-the-landscape outcomes could take another five to ten years to fruition.

Consultations with Extension Staff

The objective of meeting individually with landowners is to offer them help in goal setting, providing educational materials more specific to their needs, and if desired, a facilitator for a family meeting. This service is apparently very useful, and landowners express that they felt satisfied to have started their farm succession and estate plan. Often the conversation is around new crop and income ideas, common Extension topics. The Extension staff followed up with phone calls to ask if the next steps had been accomplished.

Making Contacts: Addressing groups such as the Farm Bureau and at workshops other Extension staff are offering has been a good first step. I mailed a research survey to landowners in the county. A small card was enclosed that asked if the person would like direct services; a private, free consultation. These cards were also made available at workshops. I then contacted and met with these landowners. Starting out, this was a good way to learn about the opportunities and challenges of providing this service. First of all, every family is unique. While there are some commonalities about the process of selecting a successor, the family make-up and individual personalities are absolutely unique. Having excellent listening skills and understanding that you are not there to really offer advice, and must not offer any advice that could be deemed legal advice, can be challenging. The role reminded me of that of a personal coach; coaching the landowner to make the commitment to get the plan created and helping them line out the steps necessary to get there. Offering additional resources and researching answers to their questions was important. An example of this was questions about the California Williamson Act. Information is available at the planning department, but often the landowner does not pursue the information on their own. The potential crops and future of the farm are discussed, and this is familiar territory for Extension staff.

Here is an example of consultations with an older couple in their 80s: 1) from the survey they sent in a request for direct services- their issue was they had no will 2) I called and talked on the phone 3) I called again to set up an appointment 4) I went to the residence and meet them for about 1.5 hours; there were uncertain about a few points and the husband and wife didn't agree. I listened to the family history, and left them some articles to read. We walked around the land and talked about the farm's history and ideas for crops 5) They recognized that they needed to meet with their son. (The husband was thinking they could just bypass that!) 6) Two months later I called and asked how that meeting went and sent them the professional directory. Their next step was to meet with a lawyer. 7) I called and asked if they had called an attorney, the answer was no. They asked me to call again and remind them as the landowner was waiting on some information from the Veteran's administration. (It is typical that a question someone needs answering from one agency stops their planning process for quite some time). 8) I stopped by about six months later on my way to another field call. They had met with their son and felt that they had things in order, they were meeting with the attorney the next time the son was in town. They thanked me for providing the educational materials and ideas for the farm.

These communications did not take much time. I provided typical land-based information and added conversation around succession. Will the farmland be saved from subdivision and going out of agriculture? Having no communication with the son in this example, we can only hope.

Research

What are the research needs and opportunities? Basic data collection can be done for each county or region. While good production records may exist, little demographical data on the farmers and ranchers may be available. What are the ages of the farming population? How many have wills and estate plans? How many heirs want to continue the family farm business? While the Ag Census can be used to generate local data on farmer ages and numbers, the succession issues most likely have not been surveyed. Getting local data will help the landowners discuss the issue in a broader scope and recognize the problems as an industry. Having local data gives Extension staff good presentation material to spread the reasons for the concern and the need for the service. There are opportunities to research the barriers that are preventing landowners to plan for farm succession. Understanding the barriers can help you plan the type of service needed for your region.

A mailed survey can generate data for a more complete understanding of the county or region. I used a survey created in England as part of the Land Transfers Project. This instrument has been replicated in many countries. In the USA, Iowa State has taken a lead on coordinating its use. John Baker of the Beginning Farm Center is the contact for use of this survey. I added a write in question at the end; "If you do not already have an estate plan or a farm succession plan, please tell us why not? What are the barriers that have stopped you from creating one, and any ideas on how a new service might assist you." 43% answered that they needed more information and a few of those 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. The fact that almost half said they needed more information is a clear mandate for an educational program. Another 30% said they didn't have the time. It is important to spread the word about the importance of these plans and to motivate people to work on them. Planning the time to work on long term goals takes self discipline.

Social scientists have conducted research to understand the characteristics of retiring farmers, and successors. For example, are they conservators or expanders? (Taylor, Norris and Howard, 1998). Understanding the management personality of each generation assists us in providing information and aiding communication in the succession planning process. Does their cultural background help determine who inherits the farm? Some cultures tend to leave the farm to the eldest son alone; other cultures tend to stress the importance of equally dividing the estate and often the land as well. A body of literature on the topic is growing rapidly.

Resources

Handouts for workshops: These articles have been gathered from around the country from various Extension and agency authors. All indicated they were to be used freely in educational projects; credit is given to authors as they were listed. Often the date of publication was difficult to ascertain. These are available on the Web site.

<http://ucanr/groups/succession>

- A)
 - a. The Planning Process. A two-page summary with an excellent chart showing how Business, Retirement, Transfer and Estate Planning are all interconnected. From Pennsylvania FarmLink.
 - b. Fair Versus Equal, What do Parents owe their Children? A Family Resource Management four page article by Jill Falloon, Extension Educator, Manitoba, Canada
 - c. Farm Family Business Meetings, a 5 page article also from Manitoba
 - d. Farm Succession – Do's and Don'ts. Written by Peter Coughler, Ontario Ministry of Agriculture and Food, Canada
- B) PowerPoint Presentation: An introductory presentation is available on the Internet at the above site. From our conference, many Powerpoints were generated from Extension staff and non-profit staff. These are difficult to share. There are private consultants offering services and we have hired them as speakers. Their presentations are proprietary.

Appendix 1

Example One: Workshop Agenda

"A Comprehensive Approach to Farm Business Succession Planning"

9:00 Registration and Coffee

9:30 Welcome and Introduction - Farm Succession Planning and Risk Management

10:00 Initiating the Process - Communication and Retirement, Disability and Estate Planning

11:00 Evaluating the Business - How many will it support?

Noon Lunch

1:00 Farm Transition Stages - Sharing Income and Transferring Assets and Management

2:00 The Business Structure - Which One to Choose and When

3:00 Tying it Together

3:30 Adjourn

Example Two: Estate Planning for Farmers and Ranchers

1:00 pm Introductions

1:15 – 1:35 Introduction to Farm and Ranch Succession issues

1:35- 2:15 Wills, Trusts and the Basics of Estate Planning

Break

2:30-3:15 Income and estate taxes: things to know about farms and ranches

3:15- 4:00 Land Trusts and Conservation Easements

4:00 Adjourn

Example Three:

Start with self-introductions. In addition to landowners, several service providers can be invited. Questions were taken as they came up.

Speaker 1 : Extension Farm Advisor. 20 minutes

Introduction to Farm and Ranch Succession issues (included a PowerPoint presentation). Definitions, Motivations, Issues Affecting Succession, Keys to success, Transition team members, Goal setting, Family meetings, Fair vs. equal, Resources such as non-profits (FarmLink and Extension services), brief outline of tools used in succession and estate planning, and descriptions of professional services available to landowners. (See the resources section to learn how to obtain this PowerPoint presentation and handouts.)

Speaker 2: Attorney. 40 minutes

The attorney and a Certified Public Accountant worked together beforehand on an outline and handout material. They created a case study of the Barnburner Family that they used for an example of how an estate would be settled with and without prior planning. The attorney described wills and the various types of trusts that couples can establish. He also described easements, life insurance and gifts.

Refreshment break: 15 minutes

Speaker 3: Certified Public Accountant. 40 minutes

The CPA described income and estate taxes and when they are paid. Cost basis and generation skipping transfers were also defined. The fictitious case of the Barnburner family was described. With no prior planning their heirs owed \$420,000. With an estate

plan in place there were no estate taxes owed. The land was not threatened with a forced sale to pay this debt.

Speaker 4: Land Trust Director. 15 minutes

This local Board member described conservation easements and management plans. The goal was to dispel some myths and share information on how they are helpful to families with land in their succession and estate plans. Both donated and purchased easements were described. Local opportunities were described.

More Examples: The longer Conference agenda is available on the web site.

<http://groups.ucanr.org/succession>.