

Passing the Torch

Financial considerations for farm transitions

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Transition Planning Workshop



My perspective



- Raised on a livestock farm in Minnesota
- Dairy veterinarian in practice in PA for 37 years
- MBA in 2001
- 23 years: Business consulting while in dairy practice
- 12 years: Bank board of directors
- CDE:
 - Founding BOD/Treasurer
 - Independent contractor and consultant currently

Farm transition recipe for potential challenges:

Money + humans with varied opinions



Allow to simmer for decades



Emotions, conflicts, differing viewpoints, potential lack of a process


Farm transition planning process answers 3 questions:



Where
are we
now?

Where
do we
want to
go?

How are
we
going to
get
there?



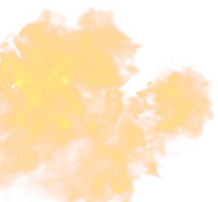
Financially, where are we now?

- Balance sheet: Assets, liabilities and equity
- Profitability of the operation
- Is the scale of the business adequate?
- Status of infrastructure (Buildings, equipment, maintenance)
- Terms and “drop offs” of debt?
- Off-farm income sources



Financially, where do we want to go?



- Scale of the operations
 - Desired investments for the next generation
 - Retirement housing needs?
 - Retirement cash flow required for the senior generation(s)
 - Needs of operating generation(s)
 - Non-farming children's interests? Legacy planning?
 - Retirement/transfer of current debts?
 - Family “traditions” for generational transfer?
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Financially, where do we want to go?

- Individual family meetings
- Group family meetings
- Brainstorming
- Feasibility studies (What ifs...?)
 - Scale of operations
 - Modernization projects required?
 - Land purchases?
 - Diversification/new enterprises



How are we going to get there?

Step-wise Transitions are often necessary:

1. Work for the farm as an employee.
2. Herd management responsibilities.
3. Livestock/Equipment ownership:
 1. Partnership/Operating LLC
 2. Split-milk check
 3. Rent the facilities/buy crops
 4. Rent entire farm
4. Real estate purchases over time
5. Estate transfers



Works best if enough time is allowed for the overall plan!


Financially, how are we going to get there?

- Considerations:
 - Timeline
 - Business structures involved
 - Modernization needs
 - Each family's financial needs
 - Opinions concerning family financing
 - Tax consequences
 - Feasibility
 - Timing of debt schedule's obligations



Sources for funding farm transition plan:



- Family savings/conversion of assets.
 - Sweat equity
 - Gifting of some degree
 - Family financing
 - Commercial banks
 - Farm credit system
 - “Church” banks
 - Farm service agency (FSA)
 - First time farmer loans/Small business administration (SBA)
 - Conservation easements (Land preservation)
 - Grants, especially for modernization/conservation uses
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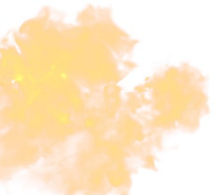
How are we going to get there?

- Consider everyone's perspective
- Financial feasibility for all
- Methods of financing (often multiple sources)
- Everything needs to get memorialized



Examples of “concerning” situations:



- One “side” creating a plan w/o the other generation(s) involvement
 - 1 family operation trying to support 2 families
 - Off-farm income leaving in next generation
 - No room for improvements/flexibility in future
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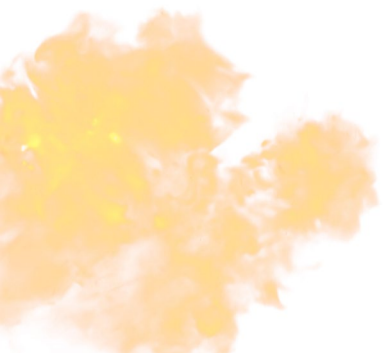
Examples of concerning situations:

- Future modernization needs not included in plan
- Holding off on significant needs until a “good year”
- Loan table that has all long-term debt
- Buying land you rent without increasing the scale of operations
- Agreement on strategy without memorializing in legal documents



Keys to financial success for farm transitions:



- Viable, profitable business
 - Adequate time for transfer of management and assets
 - Communication: A little grace and a lot of understanding
 - Consideration of everyone's financial needs
 - Use of various financing methods, gifting and sweat equity
 - Effective use of advisors, tax strategies and legal concerns
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Questions?

