

# ***SMALL FARM DIGEST***

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Farm Beginnings Introduction to Grazing Field Day at the farm of Farm Beginnings Graduates in SE Minnesota.

## **GETTING STARTED IN FARMING**

# Getting Started in Farming

*Patricia McAleer*  
*National Institute of Food and Agriculture*



Many people are considering farming or ranching as a new occupation these days, and for various reasons. Some plan to enjoy their retirement in a rural setting, perhaps increasing their satisfaction by growing a few crops or tending a few animals. Others hope to become more traditional farmers, supporting their families through production agriculture. Some of them are young, perhaps with little or no farming background. Others may have waited and saved for years to afford this opportunity. Whatever motivation, no one takes the decision lightly. Like any other new business venture, starting a farm or ranch involves a great deal of thought and planning. This edition of the Small Farm Digest lays out key issues that must be considered, identifying challenges and offering examples of how these challenges can be met.

If you are interested in becoming a farmer or rancher, you are certainly not alone. A 2007 agricultural survey estimated that of the approximately 3 million U.S. agricultural operators<sup>1</sup>, more than 650,000 were beginning

farmers or ranchers (BFRs). This is a diverse group. It is often assumed that BFRs are young, but recent data show only about 16% of them are under 35, compared to 1% of established farmers and ranchers (EFRs.) 50% are between 35-50, 22% are between 50 and 64, and 12% are 65 or older.

Most BFR's are men, but women are more likely to be principal operators on beginning operations than on established ones (15% versus 9%.) Pennsylvania State University professor Rachel Unger notes that despite 'significant barriers to success for new and beginning women farmers, the number of female principal operators in the U.S. increased almost 30% between 2002 and 2007.' Recent data show little difference in racial or ethnic backgrounds between BFRs and EFRs, but more detailed information may be available from the 2012 Ag. Census.

As with any new venture, beginning farms and ranches tend to be smaller than established operations (174 acres on average compared to 461 acres for

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<sup>1</sup> "[The farm operator](#) is the person who runs the farm, making the day-to-day management decisions."

<sup>2</sup> "[A family farm is considered a beginning farm](#) when a farmer or rancher has not operated a farm or ranch for more than 10 years."

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EFRs) but there is wide variation across the country. Most BFR operations are less productive and profitable than more established ones. For example, in 2010 family farms with gross sales of \$10,000 to \$249,999 (i.e. excluding the smallest operations) accounted for 17% of the value of U.S. agricultural production while all BFR operations were responsible for 10% of the value of production by family farms.

This is not surprising. It may take several years to generate a significant harvest (think of tree crops) and in 2010 nearly 32% of Beginning Farms were 'without production.' Also, as noted above, many BFRs focus on rural retirement with little interest in farming or ranching for profit.

How likely are you to succeed as a BFR? A 2007 ARMS Survey analysis of linked Census data showed that 45% of farms and ranches started between 1978 and 1982 survived the first 5-9 years. 19% were still in business by 1997. The failure rate is comparable to that of other new businesses. Analysis also showed that the longer an operation is in business, the greater the chance that it will survive. More information is in the ERS report: Understanding U.S. Farm Exits.

There are various reasons why new enterprises fail, but finding **good land is a key challenge**. Unlike established operators, many BFRs buy most of the land they operate, and carry a heavy load of debt. Kathy Ruhf's article, *How Will the Next Generation of Farmers Acquire Land to Farm or Ranch*, discusses the availability and high cost of land, and lays out sound alternatives to land purchase. In *Starting a Small Farm*, Rachel Pollock describes how leasing very small urban plots often helps establish immigrant farmers.

Some BFRs do acquire land within the family, by inheritance or by working with existing family members.

Professor Duffy's article, *Inheriting a Farm*, not only clarifies issues related to inheritance but is also a useful guide on what to look for when any piece of land is being considered for a farm or ranch. Similarly, in *On the Home Farm* he gives a thorough discussion of issues that must be considered when family members or any group of operators decide to farm or ranch together.

**Significant capital** is essential when starting a new farm or ranch, not only to find land but for other investments such as farm machinery, and as a

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Information in this Introduction is drawn from several sources, in particular: The National Census of Agriculture, in particular the 2007 Fact Sheet "[New Farms, New Farm Operators](#);" "[Beginning Farmers and Ranchers](#)," USDA ERS Bulletin 2009 by M. Ahearn and D. Newton, and "[Financial Position of Farm Operator Households](#)," presented by M Ahearn at the 2010 USDA Agricultural Outlook Forum

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steady supply of operating capital. Few new operations generate much cash in the early years, however, and many BFRs use their off-farm income to subsidize the farm or ranch, hoping it will eventually become profitable enough to be their sole source of income. Professor Duffy's article *Part-Time or Small Farms* discusses this approach in some detail. He also raises a concern that young BFRs may skimp on health insurance in the interim.

The 2008 Farm Bill introduced or expanded several opportunities to help BFRs. In particular, USDA's [Farm Service Agency](#) offers considerable support. James Radintz' article explains the kinds of loans available, addresses eligibility, and clarifies steps BFRs must follow. See also the article on U.S. [Farm Bill Resources and Programs for Beginning Farmers](#) by S. Ritchie and S. Sureshwaran in Choices Magazine.

Individual Development Accounts also help BFRs save and increase their own savings. Molly Bloom's article on California Farmlink's 20 years of experience shows how these accounts work and how effective they can be.

**Lack of skills** is another challenge. Many who are interested in a farm or ranch do not come from an agricultural background and must acquire a range of new skills including production, marketing, book-keeping and business

planning. The [local Extension office](#) is always a good place to start.

Cooperative Extension has long provided sound, research-based information and free or low cost services to farmers and ranchers. Marion Simon's [Third-Thursday-Thing](#) is an excellent example and her article, *Beginning Your Farm Business*, is drawn from this experience.

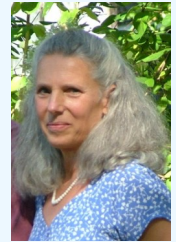
Farm Incubator programs are another, increasingly popular option. Chris Brown's article, *Running a Farm Incubator Program*, describes one of the longest running Incubator programs in the U.S. A more recent example is the [Virginia Beginning Farmer and Rancher Coalition Project](#). In *Toward a Farmer Incubator Program*, Mike Burton, a coalition member, describes his experience in setting up an incubator project.

*Farmers Growing Farmers* discusses another effective model where BFRs learn first hand from experienced farmers. Pioneered by Farm Beginnings in Minnesota, this highly successful mentoring approach is now being expanded in other states.

In the final article, Michael O'Gorman describes how a network of community partners across the US matches veterans with mentors, markets, and support.

# How will the Next Generation of Farmers Acquire the Land to Farm or Ranch?

*Kathryn Ruhf,  
Land For Good.*



*How will the next generation of farmers acquire the land to farm or ranch?* This question is arguably among the most pressing challenges now facing U.S. Agriculture. We know that nearly half of US farmers are age 54 or older. Approximately 70% of US farmland will change hands in the next two decades. But how will this transfer occur, and will farm seekers be able to access the land they need?

As a partial consequence our aging farmer population, farm ownership is becoming increasingly concentrated among older farmers and older farm landlords. At the same time, fewer exiting farmers have identified successors. In one Iowa study, only one third of respondents reported having identified a successor. This is both a challenge and an opportunity – particularly for beginning farmers from non-farming backgrounds who do not have family farms to stay on, go back to or inherit.

Inheritance has historically been the most common way to acquire a farm in the United States. For decades, the assumption was that only through inheritance or access to land through family ties was it possible for the

average farmer to have a farm. However, this traditional succession model of farmland transfer—passing a farm from an older generation to a younger one within the same family through purchase, gift, or inheritance—accounted for only about half of farmland acquisitions in the early 1990s. A Wisconsin study showed only 20% of beginning dairy farmers entered farming by taking over a family operation.

In many cases, exiting farm owners cannot afford to pass the farm to the next generation in a way that will ensure that it is farmed. And, as more young people leave the family farm, there are fewer farming heirs to take over the farm. When they do, it is often burdened with debt. Plus, the next generation is likely to want to farm differently than their parents, which may require additional investment for new infrastructure or new enterprise development. If there is no farming heir, the family is burdened with several concerns. They must find a way to keep the land in farming, if that is their wish, while providing for heirs and adequately financing their own retirement.

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Thus, traditional methods of farm succession and transfer -- passing the farm to the next generation -- are no longer adequate to address contemporary legal and financial complexities. If the family farm succession pattern is shrinking, and so many more farms are vulnerable to transition as our farmers exit from farming, alternative paths to farm access will be increasingly important.

**Challenges.** Beginning farmers and other farm seekers face considerable challenges in accessing land. First is a cultural bias toward owning land, which for many small and start-up farmers is just not realistic. Tenancy has historic baggage, and even today is seen as "second best." In reality, nearly 40% of U.S. farmland is rented and about 45% of farmers rent some or all of the land they farm.

The price of farmland is a major obstacle. In some parts of the country, competition from development drives farmland prices up. In other areas, established farmers can outbid beginners. New farmers cannot compete because they often do not have the scale needed to spread fixed costs over a large number of units or the collateral value of owned land.

In 2007, The National Agricultural Statistics Service reported that farmland values were dramatically on the rise, with both cropland and

pastureland values reaching record highs amid regional increases from 9 to 18%. Between 2000 and 2008, national farm values *more than doubled*, from \$1,090/acre to \$2,350/acre.

For farmers seeking to buy land, financing is typically the first hurdle that they face. Obtaining commercial credit is often difficult for beginning, low-equity farmers as they often lack the collateral and/or the cash flow to provide security to the lender and show they have the ability to repay a loan. Given farming's low profit, high-risk nature, commercial banks are often cautious about lending to beginning farmers. Therefore, credit sources such as the USDA Farm Service Agency, Farm Credit's Young, Small and Beginning Farmer programs and some state programs are often the primary ways new farmers obtain credit to purchase farmland.

Finding appropriate housing for a farm family can be at least as big a challenge as finding farmland. For succeeding generations on family farms, the lack of a second home can create the choice of which generation must move off the farm. Where land values are high, the cost of a home can be prohibitive if it's expected to be financed by farm profits.

**Farmland tenure.** The word *tenure* means "to hold." Tenure can be

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thought of as a bundle of rights, privileges, and responsibilities that are legally linked to a particular piece of land and are controlled by the owner of that land. The owner has the right to assign these rights and privileges to others who lease, rent, or acquire these rights by other legal means. For farmers, access to land can be accomplished in one of two ways: ownership or tenancy. Within each, there are particular models and strategies that can suit the unique situations of farm seekers and landowners.

Tenancy has long been recommended as a first step for beginning farmers. If a new farmer doesn't inherit it, renting is a viable and sensible option. It offers a flexible, lower-cost alternative to purchasing, particularly because it helps new farmers avoid carrying a large debt. As a matter of record, farmers starting without this sort of liability are shown to be more likely to succeed in the long run. Many Extension economists and other observers of the farm entry process suggest that new farmers begin by renting and gradually building up farm assets before attempting to purchase land.

Most of the challenges associated with renting farms and farmland have more to do with the type of agreement and the nature of individual landlord-tenant

relationships than with tenancy per se. The majority of rental agreements in the US are short-term—often annual, “handshake” agreements. While there can be a long tradition of honorable handshake agreements, advisors (and lenders) are increasingly urging or insisting the parties to get it in writing.

It is striking to note that nearly 90% of farm landlords are not farmers. They may be retired farm operators, farm widows or heirs, estate and second home owners, public open space managers, religious institutions, etc. Less traditional landlords are increasingly intrigued with making land available for farming. These include intentional communities, land trusts and other conservation organizations, utilities and educational institutions.

Farm landlords are increasingly removed from their farm property—both geographically and by generation. They tend to live further from the property and visit it less often. They tend to be the children, grandchildren and other descendants of the original farmers and less engaged and knowledgeable about farming and the property itself. This trend is disturbing on a number of counts. First, the landlord-tenant relationship is important for the well being of both

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parties. Second, research shows that the land itself suffers if landowners are not engaged in its stewardship. There are very few services geared to farm landlords.

Whether seeking to rent or purchase a farm, farm seekers face other challenges. One is simply that it's hard to *find* farms. Where and how should they look? Some areas have linking programs that are helpful but not sufficient. Some farm-dependent areas have realtors interested in farms. But generally, the search aspect itself is difficult. Aspiring and new farmers often need assistance in locating and securing farmland.

Land access can be particularly daunting for socially disadvantaged farmers. Racial, cultural and gender biases can make it harder for these farm seekers to get help, and to communicate with landowners, realtors, lenders and lawyers. Immigrant farmers, farm workers, women farmers and Black farmers are among those with these unique challenges.

In addition, there are not many organizations or service providers that focus on assisting farm seekers or that address farm access. One organization, [Land For Good](#) (LFG), specializes in land access, tenure and succession. Based in New Hampshire and serving the six New England states, LFG emphasizes

educating farm seekers as well as exiting farm families and non-farming landowners (current and potential farm landlords) about options and preparing all parties for successful transactions.

LFG distinguishes "listing" from the more intensive support required to screen, match and facilitate agreements between seekers and landowners, whether farmers or non-farmers.

Land For Good offers a free online course, [Acquiring Your Farm](#). It contains a great deal of information on this topic, from land tenure basics through leasing, financial readiness, working with landlords, and community partners. The course includes worksheets and many resource links to help farm seekers through each step of their land access journey.

**Leasing: an attractive option.** The majority of agricultural leases are for short -- one to three -- year periods. In fact, most are year to year, based on a verbal agreement. As noted above, it's better to have it in writing. There are advantages and disadvantages to short-term rentals. Some landowners favor short-term leases because they are unwilling to tie up the land for long periods of time. Farmers who favor short-term arrangements like the opportunity they give to experiment with new enterprises or locations

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without requiring a long-term commitment. This flexibility is particularly useful for start-up farmers. A short-term lease can allow a tenant a trial period to see if your farm plans are financially feasible and personally satisfying. A short-term lease allows both parties to get to know one another and decide if a longer-term arrangement would be beneficial.

A short-term lease does not have to be complicated. In fact, a legal lease contract consists of: names of landlord and tenant; description of the property; start and end dates, the fee (even if zero or in kind) and the signatures. Of course leases often contain more provisions than these. Sample leases can be found at [www.landforgood.org](http://www.landforgood.org).

A short-term lease can also mean financial uncertainty and difficulty in making long-term business planning or personal decisions. Lenders may balk at financing long-term assets like equipment or livestock without a written lease covering the loan period. By instinct and by necessity, many farmers operating under a short-term lease may farm that land differently than land they own. (However, research indicates that farmer attitudes and practices regarding owned versus rented land are complicated. It is not simply that they treat rented land less well.) It is true, however, that they have no financial incentive to rotate crops, invest in soil

building or permanent structures, or install conservation structures.

There are several types of short-term lease arrangements including cash rent and crop or livestock share. In cash rent, the tenant pays a fixed rent. A rolling lease term is one in which the length of the term is always the same; it "rolls over" so that at the end of the first year of a three-year lease, the tenant still has a three-year term. In crop or livestock share, the landlord shares the risk of the tenant's enterprise by agreeing to a percentage of the revenue from the rented land. A flexible cash rent is a hybrid of the two. There are many instances where rent is paid in kind, meaning that the tenant agrees to perform certain activities -- for example, keeping adjacent trails or vistas maintained or snow-plowing in lieu of some or all cash exchange.

Farm seekers as well as private landowners and organizations such as land trusts are increasingly interested in long-term leases. The main attractions for farmers are the security to plan ahead and make investments, and the possibility to gain equity, depending on lease terms. A long-term lease adds significant dimensions beyond those of a short-term agreement. For the tenant, long-term leases can approach a number of the environmental, social, and economic benefits of outright

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ownership. By lengthening the planning horizon, a long-term lease gives the farmer time to develop and implement a more comprehensive, whole-farm planning approach and capture the benefits of investments in soil productivity and farm structures. Long-term leases also provide an opportunity for the farm family to sink deep roots in the community.

An innovative variation is a ground lease. Promoted by [Equity Trust](#), an organization promoting alternative ways to think about property, a ground lease is where the tenant rents the land and owns the improvements upon it. So, for example, the tenant would have a 99-year lease for 100 acres and would purchase an existing residence or build a house with his or her own funds. When it comes time to leave, the lessee sells the house to the next tenant or back to the landowner, depending on the agreement. Many ground leases include limited equity provisions such that the owned improvements would always be affordable for the next owner.

Organizations such as land trusts and schools, as well as public landowners such as municipalities and state agencies with farmable open space are increasingly interested in making land available for farming. Sometimes the land is protected from development with an easement. The easement can

be written to accommodate and foster farming. It can also include affordability provisions as well as a clause to require active farming on the eased property. Some conservation organizations acquire farmable properties, remove the development rights and then sell the property to a qualifying farmer. Others hold the property and offer secure lease arrangements.

**Path to ownership.** A lease can pave the path to eventual ownership. A lease can include an agreement to transfer the property, either through a right of first refusal, or a straight option. In a right of first refusal, if the property goes on the market, the tenant has the option, built into the lease, to purchase the farm at the price offered by another buyer. When the option is exercised, the lease terminates and the parties enter into a purchase and sale agreement.

In a straight option, the parties agree to a time of sale and a price, both of which are reflected in the lease. The tenant can purchase the property at the end of the lease, or during the term, depending on how the lease is worded. When the sale is transacted, the lease terminates. Lease payments may be applied to the sale. Sometimes a small down payment is required. The buyer

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has possession of the property while paying the contract, and the title remains with the seller until payment is complete.

**Conclusion.** Access to land is one of the greatest challenges for beginning farmers as well as for those who seek to expand or relocate their operations. Land must be available, accessible, secure, and affordable and offer clear and equitable conditions for use. Traditional patterns of inter-family succession are increasingly less common. Other methods of transferring

farms and making land available for

farming must be encouraged.

Organizations and service providers are developing programs and tools to help farm seekers learn about and evaluate their options, find and assess properties, and negotiate sound arrangements, whether through purchase or lease. Innovative approaches and policies must be encouraged in order to make sure that next generation farmers can get access land for farming.

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## Resources.

The statistics in this article are taken from a comprehensive research report on farmland access, tenure and succession. This report is a product of the FarmLand Access, Succession, Tenure and Stewardship (FarmLASTS) Project, a national project funded by USDA. The report can be found at <http://www.uvm.edu/farmlasts/FarmLASTSResearchReport.pdf>. It includes recommendations for policy, programming and further research along with several linked case studies. There are special sections devoted to immigrant, Black, Hispanic and women farmers.

Land For Good [www.landforgood.org](http://www.landforgood.org) has many resources on farmland access, tenure and succession, including an online course, a leasing tutorial, sample leases and worksheets.

*Holding Ground: A Guide to Northeast Farmland Tenure and Stewardship* is a comprehensive guide to land access, with a focus on non-ownership tenure. It can be purchased through the New England Small Farm Institute [www.smallfarm.org](http://www.smallfarm.org).

A curriculum on agricultural land tenure can be found at <http://www.uvm.edu/farmlasts/?Page=education.html>. It is geared toward agriculture students and instructors, but has a lot of general information and exercises. This curriculum was produced by the FarmLASTS Project (see above).



## Starting a Small Farm, Full of Rewards and Challenges!

*Rachel Pollock, Program Coordinator  
New Roots for Refugees*

Starting your own farm business is one of the most challenging paths you can take. Making a small farm profitable requires an incredible amount of physical and mental work and a deep and generous passion for growing.

I have had the privilege walking through the challenges and rewards of small farm ownership through coordinating a beginner farming program in Kansas City for the past 5 years. Called New Roots for Refugees, the program is a partnership between two different organizations- Catholic Charities of Northeast Kansas and Cultivate Kansas City.



**The New Roots for Refugees Training Farm, above, sits in urban Kansas City, Kansas**

The farmers that we work with are not “beginners,” many of them have decades of farming experience in other parts of the world- Burma, Burundi, Sudan, Somalia, and Bhutan. They have come to the United States as refugees, hoping to start new lives with

their families in the Midwest. Greeted by a new and changing climate, different soils and challenging markets, refugee farmers are eager to return to a way of life that they are familiar with.

I met Dena Tu in 2006. At the time she was new to the United States, having moved to Kansas City as a Karen refugee from Burma. One of the first things that she wanted to do upon her arrival was start digging. She planted her first plot, 15’ by 15’, in the spring of 2007 in a community garden outside the Catholic Charities office. Dena remembers that first year well, “I needed to plant to feed my family and to give vegetables to my neighbors. The space was much smaller than I was used to in Burma, where we would clear large sections of land to plant rice and mixed vegetables.”

Initially, Dena was not interested in farming for profit - her experience in Burma was centered around growing for her family, sharing with her neighbors, and bartering for basic services (like trading vegetables to borrow a neighbor’s buffalo to use for tillage!) Financial pressures in the United States pushed Dena and her family into

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farming for market. Access to land is the first problem that new farmers encounter. Dena wanted to grow more vegetables, but was limited by the size of her community garden plot.

In the spring of 2008, Dena was one of the first growers on the new Training Farm started as a part of the [New Roots for Refugees](#) program. On the training farm, farmers lease a ¼ acre of land, are provided with tillage and soil amendments, help with initial the costs of seeds, water, and assistance selling their products at local farmers' markets. Every year farmers are in the program, they absorb more of the cost and take on more responsibility. Eventually, they are ready to move onto their own land and operate independently.

For Dena, the hardest part of starting to sell vegetables in the US was the language barrier, "I was so frustrated not being able to communicate with my customers. They would ask me a question and I would have no idea what they were saying. I would just smile." Language was not the only challenge. Dena recalls, "The weather was different, I didn't know what to expect. The vegetables were different varieties than I was used to, even the tools were strange and unfamiliar. In Burma, I made my tools out of bamboo and metal, in the United States I was learning how to use a tiller."

Despite these obstacles, Dena's first season was successful. She sold at two

different farmers' markets- one upscale organic market and one market where she sold familiar varieties to people from Burma- and sold three shares in her CSA.



**Dena's market stand her first year on the training farm, 2008.**

Through the next three seasons, Dena's business, and her expenses, grew. Water is one of the main expenses growing in a city and paying regular water rates. In the hottest months, Dena's water bill would be close to \$200.00 a month for a ¼ acre of land. This was also very different from Burma, where farmers relied on rain or irrigated using one of the many rivers near their village.

In the winter of 2010, once she had started paying all of the costs of the farm and was marketing with very little help from program staff, Dena and her family started the journey towards owning their own farm. After talking about it as a family, Dena realized that owning a home was part of their collective dream. She opened an

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**handmade raised beds on the site of Dena's new, permanent farm- the backyard of her home**

Individual Development Account, and started saving for a down payment on a home with land. As a part of the program, Dena attended four months of financial literacy classes and a 12 hour class on buying a home. It was a lot of work, but Dena says it was worth it, "In the U.S., many things are different. In Burma if we wanted to make a home, we just cut down trees and built one. In the United States there are many things to learn." In January of 2012, Dena and her family found and bought a home on an acre and a half of land and started doing soil work.

Leaving the training farm has been yet another challenge. At the training farm, there is always staff on hand to help diagnose pests or assist with water leaks. Now, Dena and her family are on their own. She prefers it though, and loves "being able to walk outside my back door and into my farm- it's more like life was in Burma." On her farm, Dena grows a wide mix of vegetable crops- kale, beets, and heirloom tomatoes for the organic market and

roselle, hot peppers, and thai pumpkins for people in her Karen community.

Dena attributes their success to a supportive family, diversified markets and working hard saying, "farmers cannot be lazy. If you are lazy, you won't eat!" Dena's children are always in the field with her, pulling weeds, washing vegetables or using their English skills at the market.

Dena's family, and her business model are driven by generosity. Even as I went to interview her for this article, she forced a beautiful bunch of carrots into my hands as I tried to leave- they were perfectly washed for a market that is happening tomorrow. I tried to give them back to her, but knew that I would never be allowed to. Dena's son, Heh Ku explains, "Miss Rachel, you know that we grow first for our family, friends and neighbors. Then for the market." I have to admit that as someone helping farmers start businesses, this drives me crazy. Their generosity is working though, as a family they have developed both a committed customer base and a happy home.



**Dena and two of her children wash vegetables for market.**

# Getting Started in Farming

## Part 1 Inheriting a Farm

Professor Michael Duffy  
Iowa State University Extension



Inheriting a farm can be both exciting and frustrating. Some people know exactly what they would like to do with the farm, but many do not. A number of questions and issues must be addressed before the final decisions are made.

Over the next several years the question of what to do with inherited farmland will become increasingly important. The average age of farmland owners continues to increase. According to the 2007 Census of Agriculture, the average age of the principal farm operator was 57.1. The fastest growing group of operators is farmers over the age of 65. The average age of landlords has seen a significant increase as well. According to the 2007 Farmland Ownership and Tenure in Iowa study, more than 55% of farmland in Iowa was owned by people over the age of 65. Owners over 75 years of age owned 28% of farmland in Iowa.

Farmland values have experienced increases in the past year. The 2011 U.S. average farm real estate value was \$2,350 per acre, a 6.8% increase from 2010. Today the agricultural land market is influenced by many factors. A large contributing factor is commodity prices or the income that can be earned

from the land. Other key components that influence land value are the amount of debt incurred with land acquisition, government policies, especially policies related to energy, taxes and input costs. The performance of the U.S. economy and economies throughout the world impact commodity prices which in turn, influences land values. Government monetary policies are significant factors to observe, as they relate to inflation and interest rates. Weather related challenges, both here and abroad, continue to have an influence on land values. Urban sprawl, real estate development and other land use planning issues impact the cost and availability of land.

Individual circumstances dictate the most sensible course of action. In some cases, the land may already be farmed by the individual who inherited it, and the decision could be relatively simple. In other cases, the land may be inherited by someone who knows little about modern agriculture and has no idea what to do with the farm. Finally, the farm may be jointly inherited where the wishes of all parties influence the decision of what to do with the farm. Regardless of the circumstances, it is

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important to assess your situation carefully.

There are two major factors that need to be considered before making any decisions. First, it is important to evaluate the land you inherited and understand the farm. In most cases, this will determine the best course of action. The second major factor to consider is whether the farm was inherited by one individual or a group. The more people involved with the inheritance, the more complicated the decision making process.

This publication is designed to raise questions that need to be asked and to direct heirs to specific information for their circumstances. This publication is an update of an earlier publication prepared as one of the North Central Regional Extension Publications on Getting Started in Farming. This publication was updated again in 2001 by John Baker and Mike Duffy with the Iowa State University Extension Service. Many of the ideas presented are similar because the basis for good farmland decision-making has not changed. Acknowledgement is made in a general sense and will not be made throughout to avoid disrupting the flow of the publication.

What E. G. Stoneberg said in the original piece on inheriting farmland is as true today as it was then:

“The first step in making a sound decision (the right one for you) is a systematic, careful appraisal. This evaluation should include three major parts: real estate inherited, current economic conditions, and yourself.”

## **EVALUATING THE LAND**

### **Location**

An old saying in real estate appraisal says that the three most important factors in determining the value of a parcel of land are location, location, location. Location is the key to the value of an inherited farm. Location is what determines the land’s current, best and future use. For example, land located near an expanding metropolitan area has potentially greater value for development than similar land located in a rural area. High productive land is worth more than lower-grade land for crop production. There are many other factors associated with location that determine the value of the land.

### **Income**

After location, the property’s potential income is the most important indicator of value. Figuring the farm’s potential income will help in estimating the value as well as provide information to help make the final decision of what to do with the farm.

The current use of the land is a good starting point in estimating the potential

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income from the land. The present use of the land is determined by many factors; therefore it is important not to assume that the current use is the best use for the land, especially under new ownership.

Estimating the potential income is not a simple task. The inherent productivity of the soil will help in estimating the expected yield for different crops and cropping systems. [Iowa State University Extension and Outreach](#) can provide estimated production costs and potential yields. The USDA's [Natural Resources Conservation Service](#) (NRCS) can provide advice on the most appropriate uses for the land, given its natural limitations. NRCS can help develop a soil conservation plan if necessary.

Income from livestock can play an important role in determining the potential income from the property. For instance, land that is in permanent pasture or hay will be used primarily for beef, sheep or dairy cattle. In this case, livestock income will determine the value of the land.

Several government and private organizations offer programs that can affect the income from a farm, depending on the type of farm and its location. The [Farm Service Agency](#) can provide information about current government programs and the farm's eligibility for these programs. In

addition, several resource conservation groups, such as the American Farmland Trust, the Nature Conservancy, and Ducks Unlimited, offer programs that might affect the use of the farm. Recreation and hunting leases are popular in many parts of the country and these uses can add income or value to the land.

It is important to be aware of any contracts, leases, zoning regulations or other easements connected with the farm. Such arrangements limit the potential uses of the property. If the land is currently leased, it may not be available until the lease expires.

### **Value**

A full appraisal by a certified appraiser is best way to determine the value of a farm. There are other methods to estimate a value for the property but they are not as accurate. Whether or not to use a full appraisal or some other means depends on the desired degree of accuracy. In most situation where there are multiple people involved, a neutral third party appraisal is the best approach.

The heir must consider any buildings, facilities and other land improvements when estimating the value of the farm. In some circumstances, buildings can add considerable value to the property and significantly influence how the property will be used. A dwelling on the

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property can also influence the property's use. The conditions of buildings, dwellings and improvements should always be identified as they help determine the relative value of the property. In some cases, old rundown facilities may actually decrease the value of the land because they would have to be removed or renovated.

The size of the farm also influences the decision of what to do with it. Size determines the value of inheritance and the feasibility of earning a living only from the farm.

In many cases, the farm will have sentimental value, which will play a role in the decision-making. Sentimental value is much harder to quantify. One heir's sentimental attachment to the land will not be the same as the others.

### **Taxes**

Estate and inheritance taxes at both the state and federal level are important considerations. Minimizing these taxes can increase the value of the inheritance, but simply minimizing the taxes may not produce the best use, given individual circumstances.

The size of the estate, how the assets were owned or leased, the relationship of the heirs and what is done with the property determine the amount of the taxes. If a high proportion of the inheritance is in land, it might be necessary to sell some of the assets or borrow money just to settle the estate.

In some cases, the inheritance may come under "special use" valuation. In this situation, there may be restrictions on how long the property may be farmed in order to maintain that special use valuation.

In some special cases, property can be sold and the proceeds reinvested without triggering tax consequences.

If the farm is held as an investment, who farms it and whether material participation occurs can be important in determining the inheritance tax level.

It is not possible to examine all of the details and circumstances of taxes in this publication. Farmland heirs should seek sound legal advice regarding the inheritance to determine which of the special provisions it qualifies for and what restrictions there are on the use of the property. In some cases, it will be better to pay the taxes. In other cases, it will be better to alter the uses or disposition of the farm in order to lessen the tax burden.

If taxes are owed, the new owner should be able to borrow funds to pay them by using the property as collateral.

### **OPTIONS FOR THE FARM**

Whether farmland is inherited by an individual or a group, there are three basic options available to each heir: farm the land, keep the land as an investment, or sell the farm.

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## **Farming the Land**

Farming the land is a complex decision that will involve a number of considerations. One of the first questions is whether the heir has the necessary skills and resources.

If the heir is already farming, then the next step is determining how the farm fits within a current operation. The heir could decide to add the land to the current operation to form one, larger unit, or could sell one of the farms and consolidate around the other farm.

Several questions should be addressed before deciding whether to farm the inherited property or combine it with an existing operation. How close is the inherited property to the current property? Will the size of the new operation generate an adequate income? Will the heir be able to manage it? Will it require new or different machinery?

If the heir is not currently farming but would like to start, there are numerous family decisions regarding the change in lifestyle that farming would entail. It might be easy to get caught up in the allure of farming or being on the land. But this is a decision that requires careful consideration.

Approximately 60% of farms have annual sales of less than \$10,000. A farm this small cannot support a family.

In these cases, the farmer needs off-farm employment to supply needed income. On the other hand, off farm income can supplement a beginning farmer who has an operation with the potential for full-time employment. It is important to address the question of whether the farming operation is large enough, or has the potential, to support the heir and their family in a lifestyle to which they are accustomed or to which they aspire. According to the 2007 Census of Agriculture, 75% of principal operators worked off the farm to generate additional income, and 29% of principal operators worked 200 or more days off the farm.

The health of the farm operator should not be ignored. Does the heir have ability to do physical labor and be fully exposed to the weather? Many farm activities must be performed in inclement weather.

Once the heir has chosen to farm the land, he or she must decide whether to raise crops, livestock or both.

Extension offers many publications explaining which crops can be grown across the state as well as estimates of the crops' production costs. This information can be used to estimate the potential income from the inherited farm. The choice of crop and livestock enterprises is sometimes complementary. For example, one

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option is to raise crops that will be fed to livestock.

Production agriculture involves much more than simply owning the land. It includes labor, capital and management. The amount of capital required varies by the system chosen. Many operations today rely heavily on purchased inputs which require a significant amount of capital. Many operators must borrow funds for at least part of the expenses. Other operations rely more heavily on labor, management or marketing skills. Discuss your situation with potential lenders before making a final commitment.

There will be machinery requirements regardless of the operations. Modern farming equipment can be expensive and requires skill to operate safely and effectively. Owning the machinery is only one option, however. Today, many farmers use leasing or custom hire as a way of machinery management. Leasing or custom hire is particularly beneficial for the higher priced, seldom-used pieces of equipment.

Good management skills are needed in order to run a profitable farming operation. Management skills in production and operations, financial, general business, personal attitudes and decision making are similar to other businesses. Computer skills are

becoming increasingly important for recordkeeping and business analysis, particularly on large operations. A farmer must effectively search out changes occurring in the industry and develop strategies to use them for personal gain, develop positive relationships with buyers and sellers, communicate problems, identify the operation's competitive advantages in terms of productivity and technical efficiency, and develop strategies to overcome barriers. Certain risk management techniques used to address vulnerabilities in the operation, such as crop or livestock insurance, are unique to farming.

The decision whether to farm the inherited land should not be made lightly. The major consideration is the estimated income that can be generated from the farm and whether that is sufficient for the heir. Each situation is different.

A farmer's annual income can vary greatly from year to year. Changes in commodity prices, input costs, land values, weather and yields are just a few of the factors that influence a farmer's income.

## **HOLDING THE LAND AS INVESTMENT**

Holding the land as an investment is another option for heirs. Those who

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decide to own the land can choose from several different management techniques, each one involving different amounts of time and effort. Some people enjoy being active in running the farm and others prefer not to be involved.

### **Leasing**

Leasing land to others is a viable and common option today. The Census of Agriculture reported that 54% of land was leased in 2007. A number of lease arrangements are available. See the Iowa State University, Agricultural Decision Maker web site for a complete discussion of the lease arrangements. A typical leasing arrangement involves cash rent or crop share. In a cash situation, the tenant bears most of the risk. In a crop share arrangement, production and price risk are shared between the tenant and landowner.

Cash renting is one of the least demanding options for the owner. This kind of arrangement involves finding a tenant, paying taxes, and a few other minor ownership duties. A farm may use a whole farm rental rate which would include all the land on the farm. Or a farm may be rented for a fixed amount per cropland acre with a different rental rate for pasture or buildings. Typically, whole farm rental rates are lower than cropland rates. Determining a fair rental rate is not easy. The most common method for

determining cash rent is to set a rate that is similar to what other people are charging in your area. If you use this method, make sure you are comparing your rates to landowners with similar quality of land. Always compare multiple rates versus just one or two. Comparing rental rates has its downsides because it assumes that others are charging their tenants reasonably and fairly. To assure a fair price take into consideration average yields, corn suitability ratings (CSR), and share of gross crop value. It is important to try and keep the relationship between the landlord and tenant in a partnership style environment as opposed to them being adversaries.

In a crop-share lease, the tenant and landlord split some of the expenses and the yield. The exact division is a matter of negotiation. Landowners also have the option of a flexible lease which can be a combination of both the cash and crop-share features.

Once again, the best rental arrangement depends on the situation. In some cases, factors outside the rented property may need to be considered, such as snow removal, property upkeep and maintenance.

### **Custom Farming**

Custom farming can serve as an alternative to leasing the farm. The owner of the land makes the decisions

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about the crop, inputs and marketing, but hires others to perform the actual work. The custom operator handles all machine operations on the owner's land in exchange for a set fee or rate. Custom farming is an option with less risk involved. In a bad year, profits from custom farming will be smaller than under a conventional lease, but that is the trade-off for reducing risk.

### **Hiring a Professional Manager**

Hiring a professional manager is an option for those who want to keep the farm as an investment but do not want to make business decisions regarding the farm. This arrangement varies. In most cases, the owner makes no business decisions and lets the hired professional farm manager run the farm. The owner receives a check, and the farm management firm receives a percentage of the gross income. The typical charge for cash rent is 5% and a crop-share is 12% of the gross income. These percentages will vary depending upon the amount of time and effort involved for the farm manager.

The return to land as an investment is generally thought of in two components. The first is the yearly cash return, which varies according to the use of the land and the type of lease arrangement. It is subject to weather, production and price risks. In the past the annual cash return to land has varied considerably, but it usually

averages 4 to 8% after property taxes and before income taxes.

The second component to the return to land is the increase in value or capital gains. The 2011 average U.S. land value was \$2,350 per acre. This value is up 6.8% from 2010. The average value is measured by the value of the land and buildings on the farm. Land values vary greatly throughout the country. United States cropland values increased by 9.4% to \$3,030 per acre. Some parts of the country saw increases of 17% and others experienced a decrease in value by 1.3%.

Regardless the leasing method used, a written contract between the landlord and the tenant is advised to have a clear understanding of their agreement.

### **Selling the Land**

The final option is to sell the farm land. This option is particularly appealing to those who want the proceeds of the inheritance for other uses. This is important not just for the parties involved in the lease but also their heirs.

There are many considerations in the decision to sell the property. Tax consequences from the sale depend on several factors: the amount of the sale, the income tax basis of the property, and sometimes the method of sale. Selling the property under contract can

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spread out the reportable gain over several years which lowers the tax burden but postpones the use of the funds for other purposes. Some states have special programs to provide tax incentives for people selling land to a beginning farmer.

Those who decide to sell the land must consider the method of sale. Most use a licensed real estate broker. Other heirs sell the land to someone who is familiar with the land or through classified advertising.

It is possible to divide a large property into smaller tracts for auction. For example, heirs may decide to sell the building site and keep the cropland, or vice versa.

Another method of selling the farm is to hold a land auction. It is uncertain which method produces the highest price; it depends on the bidder. Setting a minimum price is one option for those who hold land auctions. If the auction produces a higher price than pre-set minimum price, the land is sold. However, if the minimum price is not met the owner can reassess the sale method or his or her expectations.

Many heirs who decide to sell the land do not know a good selling price. The land market is not well-defined as other more frequently traded commodities. Farmland heirs should obtain a professional appraisal to help establish the value of the land and assist in setting the right selling price. It is also

important to remember that an heir's sentimentality for the farm is not translated into value for someone else. It is also important to remember to seek sound legal advice.

### **Cash sale**

A cash sale for deed is one of the most popular ways to sell land. A cash sale immediately produces the proceeds from the sale for other uses. It also minimizes the risk to the seller. However, a cash sale might reduce the number of potential buyers because most buyers will need some type of financing. Fewer buyers could mean a lower selling price.

### **Contract sale**

A contract sale is an option in which the buyer provides a down payment and then makes payments on the land. The advantage to the buyer is the need for less money up front. The seller's advantages include the option of reporting the gain on an installment basis and lowering the overall tax consequences. A contract sale does expose the seller to the risk of default from the buyer. However, the increased risk means the seller usually can receive higher interest. The higher interest is additional income for the seller. Again, several states have special beginning farmer programs that allow different tax treatments for this income. Additionally, offering a favorable contract will increase the number of

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potential buyers and provide the opportunity for a better price.

### **Trade**

Trading the property is another option that may be appealing in some circumstances. This is especially true for an heir who is already farming but in another area. By trading the property to someone who owns or can buy property closer to their existing farm, the heir can avoid taxes that could be generated from the sale. Trading farmland for other rental property is another possibility.

### **Gift**

Giving the property to a non-profit organization as a gift is another alternative to selling it. This usually occurs when the property has unique wildlife or scenic value and is desirable to organizations such as Nature Conservancy, Ducks Unlimited, or Pheasants Forever. This option also allows heirs to avoid tax consequences.

## **HOW THE FARM HAS BEEN INHERITED**

### **Alone**

Inheriting the farm alone is the easier of the two scenarios. In this case, any decisions will be based upon the individual heir's circumstances without dealing with others' expectations and desires. Inheriting the farm as an individual still leaves the same basic options and alternatives: whether to

sell the farm, keep it as an investment, or farm the land.

If the heir is currently farming, deciding what to do with the inherited farm is simply a matter of deciding how the farm fits within the current operation and goals. The farm operation can be consolidated by selling the inherited farm and buying one closer to home without triggering tax liabilities.

If the heir is not currently farming, the earlier discussed pitfalls and considerations apply. Heirs must remember to not let the romantic notion of farming or sentimental value of the land cloud their considerations and to estimate the expected income from all sources.

If the heir keeps the land as an investment, he or she must decide how much time and energy to devote to it. Depending on how it is handled, land ownership can involve considerably more time than conventional assets. Farmland heirs also must determine how much and which type of risk they are willing to bear.

Individual tax consequences probably will guide the decisions about selling the land. Many alternatives exist and should be considered carefully. In addition, options exist to postpone or eliminate the tax burden, depending on how the property is sold.

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## **With Others**

Inheriting a farm with other people complicates decision-making. Each heir has different goals and needs. However, blindly pursuing what is in one heir's best interest can lower the returns to everyone. Heirs should think as a group and strive for compromises. Open communication is essential.

Ideally, the individual who left the farm to the heirs has made all the considerations for fairness. However, in some cases an equitable distribution was the guiding force. In these cases, fairness becomes an individual consideration.

A complication arises if the farm is currently operated by one of the heirs. It is important to remember that the decisions made by the non-farming heirs can substantially influence the ability of the farming heir to continue. If the heirs want to sell, the farming heir may not have the capital or be in a position to take over the entire farm alone. This may be true if one of the heirs wants to start farming but the others do not.

If the decision is to keep the farm as an investment property, the heirs must agree on how to do so. In many cases, it is easier for a professional farm

manager to handle the investment to avoid complications. Regardless of the method chosen, some means of decision-making must be established. One heir must not be able to influence the return to the investment without the consent of the others.

## **Conclusion**

Inheriting a farm can be exciting and rewarding, but at the same time it can be a considerable amount of work.

An accurate professional appraisal will determine the size of the inheritance. Extension and other organizations can help with the decisions about the options and alternatives for the inherited farm.

Heirs must remember that the tax consequences of the various options can vary significantly. Legal counsel should be obtained before deciding what to do with an inherited farm.

Ultimately, you and the others who have inherited the land have to be the ones that make the final decision. The most important factors to consider when deciding what to do with the farm are your values and goals.

# Getting Started in Farming

## 2: On the Home Farm

### **Introduction:**

Family-operated farms continue to account for most U.S. agricultural production. Taking over the family farm business has long been a beautiful part of the American dream for some farm youth. Similarly, many parents look forward to their farm business being continued in the hands of the children for generations to come. But, those dreams and desires can be shattered quickly if the realities of personal and farm business relationships are not understood by all parties.

The decision to make a living from farming requires much thought. Concrete steps must be taken to give the arrangement the best possible chance for success. A commercial farm business involves considerable quantities of land and capital. Gaining access to these resources can be a major challenge or roadblock for a beginning farmer. Not only is it essential to have physical resources, but one must have the managerial ability to combine those resources into an efficient and profitable farm business.

This publication will address the question of how to get started and established in farming for those who have (1) made the decisions to farm for a living and (2) have the opportunity for

a beginning on the home farm. The information presented is focused on the younger generation considering whether to enter into a farming arrangement with parents or family. However, the information is also relevant for the older generation preparing to hand down their farm business.

### **Identify the Situation:**

The home farm provides several favorable opportunities. The first is access to land. Often times, the chief factors constraining a beginning farmer are the unavailability and high price of land. The family farm provides access to capital and the opportunity to accumulate additional capital that might otherwise be unavailable. Another appealing aspect offered by the home farm is that farming with the older generation of your family provides the opportunity for gaining managerial experience under their guidance and encouragement. This managerial assistance removes some of the uncertainty and hesitation in borrowing money and entering new enterprises on an efficient scale. Going back to the family farm has a large sentimental value for some people. You are unable to assign a price to farming the land where you were raised.

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Even though the home farm provides a viable opportunity to begin farming, several matters need serious attention. Family arrangements are not automatically successful like some may presume them to be. Serious thought, open discussion and careful planning must take place before coming up with an agreement in order to gain the long term commitment and confidence needed for success. Prior to any agreement, plans must be developed, understood, and agreed upon concerning:

The arrangements under which the new partner enters the business

How that person develops a greater role in the management and financial structure of the business

When and under what conditions does the new person gradually assume the managerial reins of the business?

How will eventual ownership of the farm be transferred to the younger generation upon retirement or death of parents or family?

Because of the large quantities of resources involved and the total dollar value of these resources, all parties must recognize that a family arrangement has long-term consequences. It is not something to be entered into haphazardly, or with less than full confidence by all parties that a successful working relationship is

possible. It is unlike many non-farm jobs where two weeks notice will terminate employment. Traumatic personal and financial consequences and strained family relationships can result from the failure of a family farming arrangement. Furthermore, after the arrangement is started a lot of hard work and considerable "give-and-take" on the part of all participating parties will be necessary to keep the arrangement going.

Before starting a family farming arrangement, it is also essential that serious consideration be given to such matters as:

Is there the opportunity for both generations' goals and objectives to be met?

Is the business large enough, or can it be made large enough to financially support multiply families

Will the arrangement supply the economic security required by the older generation?

Will overall family harmony be maintained?

### **Identify What is Important:**

Several aspects of entering a family farm arrangement merit serious consideration. Some of these aspects may be personal, business or a combination of both. Making a complete appraisal of all aspects prior to initiating

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a family farming arrangement is not only the most convenient time, but it is also the least costly in terms of dollars, personal heartache and strained family relations.

### *Appraising Personal Situations and Goals*

The first step in assessing the potential for a successful beginning on the home farm is to evaluate the situation on the home farm as it currently exists. This includes an evaluation of the present situation of the established generation, the entering business partner and the other potential heirs.

The older generation should carefully consider the following:

Do we still have minor children at home to be cared for and educated

What is the likelihood that one or more of these children will want to farm in the future?

How much income do we currently spend for family purposes, and how might this change over time?

How many more years do we plan to actively participate in the farm business before retirement?

How hard do we want to work in the farm business operations in the years ahead? In the next 5 years? In the next 10 years?

What goals do we have for the future?

Personal goals – retirement, travel, family, living, etc.

Farm business goals – What do we vision the farm business to be like in the years ahead?

Financial goals – income expectations, future security, providing for children.

Are we willing to openly “share” these goals with a new business partner(s)?

Is the present farm business large enough to support addition individuals or families?

If it is necessary or desirable to expand the farm business, are we willing to incur more debt and, thus, perhaps, greater risk?

Are we willing to totally disclose and to discuss frankly all financial aspects of the business with our family as we would with a lender or other non-related business partner

Is the present farm business still growing, stabilized in size, or reduced from previous years?

How do we visualize our family member’s new participation in making farm decisions in the years ahead – Making organizational decisions including land and borrowing more money; making operational decisions?

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The younger generation must also evaluate their situation and goals and consider questions such as:

Why do I want to farm with my family?

What can I bring into the home farm business, in terms of interests, experience, education, financial and other resources?

How well do I get along with my family in personal matters?

Can I talk openly and frankly with my family?

If married, does my spouse like and get along with the rest of my family? How do they feel about farming with my family?

What are my (our) goals in life? What do I want to accomplish professionally, personally and financially?

Are my intentions to eventually take over the home farm, or just to get experience, land, and financial stability until I can become established on my own?

Am I willing to openly share these goals with my family?

How do I view my role in the family farm agreement in the years ahead? In 5 years? In 10 years?

Am I willing to gradually mature into acquiring more managerial responsibilities, or do I want to

become "boss" immediately?

How do I visualize that we can share responsibilities?

From past personal dealings, do I believe my family business partners will be reluctant to share and/or relinquish managerial responsibilities?

Am I willing to invest some of my farm earnings into the farm for growth and expansion?

How much income do I believe I will need for family purposes next year, 5 years from now, and 10 years from now? How much, if any of this will come from nonfarm sources?

Is the present farm business large enough to support multiply individuals or families?

If the farm business needs to be changed or expanded, in what way do I believe this should be accomplished?

Am I willing to make the sacrifices, compromises and extra effort to make the family farm arrangement work?

Due to the complexities of the important decisions that are made when forming a family partnership, it is important to write down the answers to the previous questions in an organized manner. Writing down something forces you to pinpoint your thinking. As the

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responses are written, they can easily be reviewed as the potential family business partners revise their thoughts. The document can be used later when both parties meet to discuss the decision.

### ***Consideration of Other Potential Heirs***

It is essential to know the goals and future aspirations of non-farming brothers and sisters or other potential heirs. The fact that most parents want to treat all the children equally with respect to inheritance provisions can sometimes be devastating to the farming family member unless provisions are made well ahead of the death of one or both parents.

We have already established that it is important to have goals for the new farming business partner. It is equally as important to determine the goals of the separate family members to determine if they conflict. Often times personal goals and the goals of the business are not compatible. The best time to determine the compatibility of goals and thoughts about the future business organization before the formal agreement; it is also the least costly.

### ***Is the Business Large Enough for Multiply Individuals or Families?***

Not all farms are suitable for the development of successful multi-family operations. Some farms may be too small, not productive enough, organized

in a manner that they cannot support multiply families, or located where they cannot be made into the type of unit upon which a family member wants to spend the rest of their life working and living. A younger farmer may be disappointed when entering the business if he or she automatically expects the farm to provide sufficient income and the quality standard of living that it provided growing up. The farm may still be as productive, or perhaps even more productive than it was during the young farmer's childhood. It is important to recognize that it could fall short of providing the volume of business necessary to provide sufficient living income and expansion capital for the families of both parties.

It is extremely difficult to say what amount of income will be needed to provide the standard of living desired by all families involved. Chances are that the older generation will require less income than the younger generation to maintain their respective families. The older generation family members are more likely to only have themselves to support versus having a young family. They may also have little or no housing expenses and savings built up from over the years to live off of. The younger generation, on the other hand, may have a spouse and young family and considerably more

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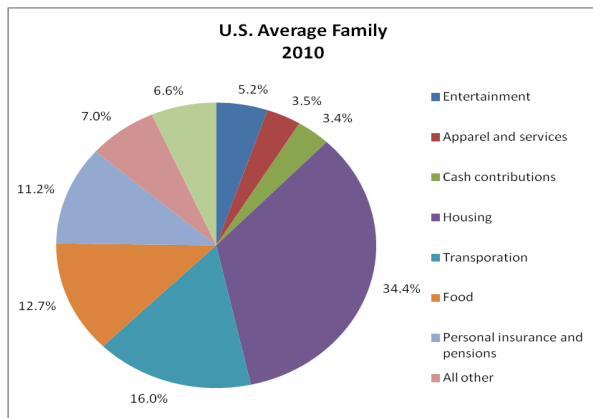
expenses. Younger family members might be responsible for payments on a house, one or more cars, debts that were incurred while in school and educating their own children.

### **Managing the Farm Family Finances**

No matter what lifestyle you have, creating a family budget is necessary. However, the lifestyle of a farm family can create more challenges especially for a beginning farmer. Challenges are created by the constant changing nature of farm incomes that fluctuate with many variables including crop prices, seasonality and weather.

It has been estimated that annual living expenses for the average farm family exceed \$47,000. Each family budget is different. You can use averages from the United States and Midwest to help as you come up with your own budget. The Midwest is 27% rural so the spending habits of families more closely resemble a beginning farm family.

The following graph displays the average 2010 U.S. family expenditure spent on major components.



The Iowa State University Extension Publication "[Taking Charge in Changing Times, Managing Farm Family Finances](#)" goes into great detail on setting household, personal and farm budgets.

Frequently budgets are generated to evaluate if a certain investment should be made, such as enterprise expansions or farm land purchases, without recognizing that principal repayment must be taken from the same funds as living expenses. Thus, investments may be made and debts incurred that cannot be repaid after family living expenses have been met.

How much gross income will be needed to produce net farm income of \$40,000-\$50,000?

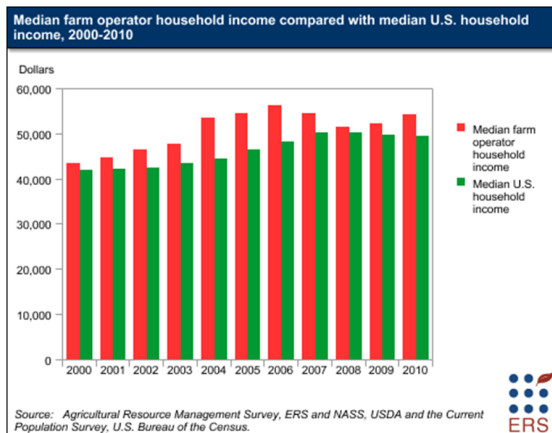
Farm records across the country indicate that it takes roughly \$5 gross income to generate \$1 net farm income. For simplicity, assuming the 5:1 ratio, a potential family arrangement would require \$200,000 – \$250,000 gross income to be generated annually to be viable.

Budgeting expected returns based on *actual farm records* is by far the best method of evaluating the farm business potential. If a possible family farm agreement is anticipated 2-3 years in the future, and comprehensive farm business records are not currently being kept by the older farming generation, the younger generation should strongly

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encourage this to be started immediately. It is far better to determine that there will be insufficient income generated before entering a family farm arrangement than to find out a year into the venture. If it is determined that there will not be sufficient income from the home farm as it now exists, expansion of the business or alternative supplemental sources of income must be considered.



Increasing the efficiency of the business (including better yields, improved timeliness and better management) will help increase necessary income in some situations, but that usually is not enough. Bringing another person into an existing business usually requires expansion of the business. This expansion can take many forms. On some farms, expansion of the land base may be feasible, but for others it may not. The opportunity to expand various livestock enterprises or intensify cropping programs is available on many farms. In the short run the best alternative may be for one

or more members of the family operation to seek nonfarm employment. Each farm situation is different; therefore, each situation must be analyzed to determine the means that provide the most potential for successful expansion. While future conditions, opportunities, and problems can never be fully anticipated, it is important to agree on the basic format of needed business expansion prior to initiating an arrangement.

### Sharing Management Responsibility

It is essential that not only the farm business partners must be able to relate well to each other in personal as well as business matters, but other members of the families must be able to do so. All parties (farmer, children, spouses, and other family members) must be kept aware of the business matters and be understanding and tolerant of each other's idiosyncrasies. More business arrangements are dissolved because of disagreements over trivial matters than over matters of real consequence.

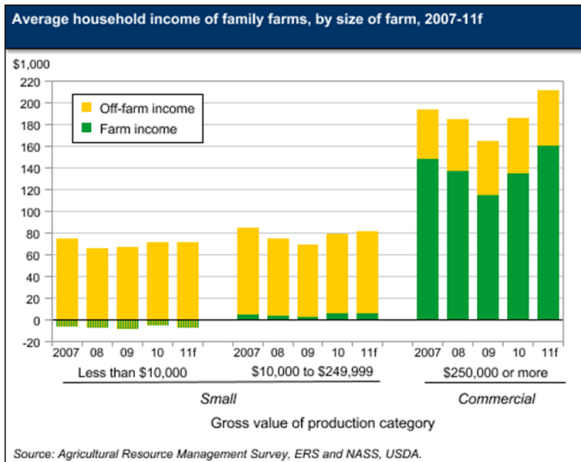
When starting a family farm arrangement, the older generation must be sufficiently wise and open-minded to recognize the younger generation's maturity and increasing ability. The older generation who may have views that are typically more conservative need to recognize the younger generation's drive and desire to get ahead. On the other hand, the younger

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generation must recognize that their older business partner has had years of experience in making managerial decisions and, thus, should have confidence in and show respect for their ideas.



In some situations the business partners may arrive at slightly different solutions to a problem. The different parties must discuss the differences and listen to one another's point of view without implying negative feelings towards the other in order to come up with the best solution. Sometimes this may result from one party convincing the other that their course of action is the best option, and sometimes, by discussion, the best decision is really a compromise. Good family business arrangements should never imply that one party or the other is right or wrong. The words "I told you so" should never be used if a decision proves to be wrong. The key to the matter is willingness by both parties to discuss openly and honestly all aspects of the

decision to be made. Open and honest communication includes both talking and listening. In most instances, both parties cannot do both simultaneously.

For a successful arrangement, there has to be a genuine desire by all parties and their families to make it work. Everyone should be dedicated and willing to work toward similar business objectives to make the business successful. When values and goals appear to differ, care needs to be taken to arrive at a reasonable compromise. The ability to compromise is essential.

There may be times when an acceptable compromise seems impossible. For these instances it is extremely valuable to have a predetermined procedure for arriving at a decision. It may mean calling on a third party such as the county extension agent, extension specialist, vocational agricultural teacher, lender, or other mutually respected individual for advice. A plan for facilitating the negotiation process might even be necessary. Most of the time the mere fact that such a plan for arbitration exists is sufficient to alleviate the occurrence of the problem. If not, you have already agreed upon a mutually acceptable plan for settlement. Joint participation in major managerial decisions is a must. Typically, the older generation understands the importance of transferring property ownership to

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the farming heir but may fail to realize the importance of gradually transferring management.

In addition to working together and sharing management, appraisal should be made of the "living together" aspect of the arrangement. From the outset of the joint venture there must be an understanding that multiple, distinct families are involved.

There must be separate living facilities. This is desirable even if the older generation is not married. If the older generation is married, it is an absolute necessity. Significant others of family business partners may feel additional pressure from other family members if all are living under the same roof. There must also be a general understanding of working hours, weekend responsibilities and time off to help foster smooth family living conditions.

### **Will the Arrangement Facilitate Change?**

The family farm arrangement has to be considered beyond the first year or two of operation unless it is specifically designed as a temporary or short-term venture. The first step in making these decisions is to recognize that there will be changes – in the people involved, goals, financial needs, financial positions, and the farm business. It should be designed so that smooth adjustments can be made when changes occur.

When a family farm agreement is initiated, the older generation is often still in prime working life and capable of long hours of hard work. As time passes, they will be less able and probably will not want to work as hard as before.

Current cash income needs of the older generation typically decline, and their interests and goals change. Security in their retirement years becomes much more important. On the other side, the younger generation will most likely have increasing income demands especially if they have a family or plan on starting one.

The younger generation's management experience and competency also increase, along with the desire to assume more responsibility and become "master of their own destiny." If the business is profitable, their equity in the farm business will also be growing.

Adjusting to these changes cannot be left to chance. Before starting a family farm arrangement, it is vital that definite written plans be agreed upon that will provide: (1) security for the older generation after retirement, (2) transfer of managerial control of business to the younger generation, and (3) transfer of farm ownership to the younger generation, with appropriate compensation to other members of the family. Let's briefly examine each of these.

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**Security for older generation** – After working hard for years to build up the farm business and buy the home farm, the older generation is entitled to enjoy the rewards of their long efforts and have security in their retirement years. Parents have a strong desire for security and the wish not to be a burden on their children or the younger farm generation during retirement.

Provisions must be included in the family farm agreement to provide security for the older generation after managerial control has passed down. While this basically involves arriving at an agreement that is equitable to both parties, there is one thing that must be clearly recognized. Security must be built up over the years. Thus, the farm business must be efficiently managed, and large enough, to provide adequate income for the multiply families so that security can be obtained.

Some may be afraid to turn over managerial control and ownership of their business to the younger generation. They love and trust this generation but are also aware of cases where the ungrateful children or heirs have turned their backs on parents in the parents' twilight years.

**Management control for younger generation** – One of the most important matters to be resolved in a family farm agreement involves managerial responsibilities. While

specific responsibilities should be agreed upon at the start of the arrangement, these must change over time in a definite manner. Typically, the older generation, controlling most of the land and capital resources at the start of the arrangement, has the primary managerial role. But, as the younger generation's contribution increases, they assume more managerial responsibilities until the time when they take over complete managerial control (perhaps at the time of the older generation's retirement). The share of business income received by the younger generation should change in a similar manner.

It is very important that the younger generation know, prior to entering the arrangement, when or under what conditions their managerial responsibilities will change –particularly when they will assume managerial control. This cannot be left to the whim of the older generation because too often they are hesitant to give up control and continually put off handing over the reigns. This uncertainty is unfair to the younger generation and is likely to lead to personal and business problems that could destroy the arrangement. The older generation may not know exactly when they will retire and have no way of knowing if or when illness will curtail their participation in the business. This entire matter must

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be openly and thoroughly discussed and an agreement must be reached. The agreement must be put into writing prior to a long-term arrangement. If setting specific dates for turning over managerial responsibilities is unrealistic for your situation, then at the very least write in specific conditions under which managerial changes are to be made.

***Transfer of farmer ownership to younger generation***—Many young family members entering a family farm arrangement want to own the home farm eventually. If the young family member is the only child or heir, agreement on when ownership will be transferred can usually be worked out without much difficulty. Security and living provisions for the older generation during retirement, and tax considerations are primary factors to be considered in the decisions.

In many families other children or members are involved, and the matter of transferring farm ownership can become complex. A primary family objective should be maintenance of overall family goodwill, and equitable treatment of all heirs. Accomplishing this while maintaining security during retirement, transferring the farm to the younger generation in the most expeditious manner, and protecting the rights of the farming family member (in the partnership) takes careful thought of planning. Estate planning is beyond

the scope of this publication but several points should be emphasized here:

Good estate planning is not done at the time of older generation's death. If planning is not completed before then, all that can be accomplished is to pick up the pieces.

Strange things sometimes happen to heirs when an estate is settled. Brothers and sisters, even those who may have been close in early life, can become jealous and greedy. Thus, it is very important if one person is to acquire ownership of most or the entire farm, that the estate plan clearly specify provisions for equitable treatment of all heirs.

Communications are extremely important in this matter. All family members, including those not part of the family arrangement, must be informed of the nature and intent of the family farm agreement at the time it is initiated. This should include intentions for changes in managerial control, farm ownership transfer, and inheritance. Bringing these things into the open then, can prevent major personal family problems later.

The younger generation will be building up their own share of the total farm equity over time. Accurate records of the young farmer's investments should be maintained to

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facilitate an equitable settlement when farm ownership is transferred. This also protects their rights if the older generation's estate must be settled prior to ownership transfer.

While the preceding discussion is not exhaustive of items that need to be considered prior to entering the farming business by way of the family farm, it offers a guideline. The home farm does provide a unique opportunity for getting started in farming; however, for the attempt to be successful, much thought, open discussion, and thorough consideration of the items mentioned above (and others) must precede actual initiation of any family agreement.

### **Selecting the Best Family Arrangement**

The most important step, appraising all aspects of the situation, has been completed. Now it is time to focus on how the younger generation actually enters the home farm business. The initial arrangement varies with each specific situation. Has the younger generation been working on the home farm for a while or have they been away from the farm for several years?

In one situation, the younger generation has been away from the farm for several years (college, military, or non-farm employment); they have little capital accumulated with which to buy into the home farm business, limited managerial experience in

farming; and the older generation has operated the farm as a sole proprietorship for years and has grown accustomed to making all management decisions without having to discuss them with a partner.

In another situation, the younger generation has been working with the older generation while finishing their education. They have some capital already accumulated, and the older generation has already been sharing some minor management decisions, permitting the younger generation to gain some managerial experience. In this situation, the initial business arrangement may be a more sophisticated and long-lasting one than an employer-employee arrangement. A joint operating arrangement or even a partnership type arrangement may be desirable. The individual situation will dictate what the initial business arrangement will be.

### **Employer-Employee Arrangements**

In an employer-employee relationship, the younger generation will start as an employee of the current business for a wage agreed upon by both parties. This method is the least complicated way of starting the younger generation on the farm. It serves as a trial period, enabling the younger generation to mature into the business, leading to a more long-lasting arrangement and

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determining if working with the family is possible. In an employer-employee arrangement, the younger generation's decision not to continue with the family farm would cause minimum disruption in the business. However, if no further steps are taken, this arrangement will provide little or no future direction for the family farm, and the younger generation may become dissatisfied.

In the employer-employee arrangement, the younger generation usually has a little more to contribute to the business than solely their labor. They might be able to share some of the management responsibilities and possibly some capital, depending upon individual circumstances.

#### *Wage Agreement*

Several modifications of this basic wage agreement may serve as the initial form of business or as a means of maturing into a more complex, joint arrangement. Combining a wage incentive plan with the basic wage is one such arrangement. This serves to stimulate more direct interest in the business as well as permitting the younger generation to realize that the amount and quality of their efforts will directly affect their earnings.

Incentive plans are bit discussed in depth here, but a few fundamentals need to be presented. An incentive must be payment in excess of the basic wage and not mere substitution for a

living wage, adequate housing, or working conditions. The incentive should be large enough and achievable to encourage the extra effort desired. A token incentive, or one that is either a poor substitute for a living wage, or one that is totally out of reach will surely guarantee disaster.

A sound incentive plan is likely to result in increased income for both generations. The incentive payment should be based on performance over which the younger generation has direct control or influence. Once an acceptable incentive plan has been developed, like any other business arrangement, it should be written down. It should describe the purpose, responsibilities of both generations, method of calculation and time of payment, and provide a method of settling disputes.

Another approach is to pay the younger generation well in excess of what a hired person would typically earn. This accomplishes several different objectives. It displays faith in the younger generation and their potential contribution to the business; it serves to keep them motivated and more genuinely interested in the business; and it provides an indication as to whether the business will be able to generate enough income to ultimately satisfy the needs of both generations; and it will also help to ensure that this

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type of wage agreement (rather than some joint sharing of costs and income) will not last too long.

#### *Wage and Income Sharing Agreement*

Another modification of the basic wage agreement is the wage and income sharing agreement. Under this kind of agreement the younger generation is paid a wage (approximately equal to a hired man's wage) plus a share of net farm income. This share of net income could be in the form of livestock, equipment, or cash. Thus, it provides a means of building the younger generation's capital involvement in the business. With this type arrangement, the younger generation has reason to take added interest in the business, and it encourages them to take the point of view of the manager rather than simply the hired man.

Because of their interest in keeping the net income as high as possible, they will likely become more aware of and have more interest in production costs. As a result, income for both generations will be increased. It is very important, however, that as net income can be calculated different ways (and have quite different results), that a specific definition of what net income is must be agreed upon.

Under the wage and income sharing agreement generations must be aware that as long as the arrangement is income sharing and not loss sharing, an

employer-employee relationship exists. This implies that the younger generation, as an employee, is not responsible for the liabilities and losses of the business. It also implies that the younger generation may do only those things the older generation authorizes them to do. If losses are also being shared, then legally a partnership exists and the problem of unlimited liability and other partnership responsibilities must be faced.

#### **Joint Operating Arrangements**

It may be obvious, because of the younger generation's personal situation (farming experience, capital accumulation, and desire to invest in the business, or managerial experience and ability) that a more sophisticated joint venture type arrangement is desirable. If this arrangement is viewed as "the next step" in the family farm business, an enterprise working agreement may be suitable.

An enterprise agreement usually implies that the younger generation will be given primary responsibility for a specific enterprise within the business. Generally, in addition to their labor, the younger generation will furnish some of the livestock and/or machinery, as well as some management.

They will have major decision making authority in decisions affecting the total farm. As the younger generation gains

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more experience and displays ability to handle more responsibility, they can be given a larger share of the responsibility for the total business.

The enterprise agreement should be viewed as only a temporary form of arrangement. If this arrangement lasts too long without shifting more total business responsibility to the younger generation, they may become so preoccupied with "their" source of income (their enterprise) that they neglect some of their total farm obligations. This form of written agreement should include such points as job responsibilities, contributions by both generations, sharing of income, methods of settling disputes and ultimate graduation into more of a total farm joint operating agreement.

If the joint operating agreement is not considered to be a next step in the family farm relationship, but rather to serve as the initial form of business partnership (for example where the younger generation has the necessary ability, experience, and desire), a total farm operating agreement may be desirable. A total farm operating agreement is a complex form of organization for a beginning farmer. If the situation is right, a total farm operating arrangement can be developed where initially the younger generation's investment in the business can be minimal for the first few years. Thus, some of the advantages of

attesting or trial period can be realized. Before entering this type of an arrangement, the family should have made some long-range decisions and thus, may be far beyond the "testing" phase. If this is the case, this should be considered a more permanent type agreement.

### **Reappraise the Situation**

Once initial entry into the farming business has been accomplished, either as employee or as a junior member of a joint operating agreement, and after a suitable trial period, an evaluation of the question "where to go from here?" must be made. This evaluation could lead to three different basic conclusions. First, perhaps a permanent partnership will not work, and the younger generation decides to move into a non-farming occupation. Or the younger generation's goal of "getting started in farming" has been accomplished, and it is now time for the younger generation to start farming on their own. Possibly the older generation is at or near retirement age, and may want to let the younger generation assume total control of the home farm by either buying or renting the farm. A third conclusion could be that the family farm agreement has proven successful and all parties want to continue farming together. This third conclusion means that consideration should be given to a

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more formally organized, long-term, joint farming arrangement such as a partnership or a family corporation.

### **Long-Term Family Business Arrangements**

When more formally organized joint operating arrangements are contemplated, more emphasis needs to be placed on long range goals for both parties. Since such arrangements imply a more complex sharing of management as well as capital investments, attention must be given to potentially detrimental effects if it becomes necessary to discontinue the joint operation. Also, as these arrangements are considered, definite plans for the ultimate transfer of managerial control and of property ownership from the older to the younger generation become extremely important.

Partnership and corporation are the two common business arrangements that fall under this heading. While the advantages and disadvantages of these business arrangements merit comprehensive discussions, only a brief overview of their relation to the family farm situations will be presented.

#### **Partnership as an Alternative**

A partnership permits the combining of assets, sharing of management responsibilities, and sharing of both profits and losses of the business. A partnership tends to facilitate the

gradual transfer of both management control and ownership among the generations. As younger farmers build equity, their contribution to the business increases both in total dollars and percentage compared to older farmers. As the older generation reaches the stage in their farming career where they wish to start phasing out of the business, more management and ownership can be conveniently transferred to the younger generation.

Property ownership prior to the formation of a partnership sometimes causes concern. Not all assets owned by both parties need be contributed to the business. However, once property is contributed, it is no longer yours or mine; it becomes ours (i.e. the partnerships).

When establishing a partnership, corporation, or even a landlord-tenant arrangement, inventory and estimation of fair value of individual contributions is of utmost importance. Each partner should list and value the capital, labor, and management they contribute to the partnership. Even though the partnership may pay a salary to each for labor contributed, business profits should be ultimately shared on the basis of contribution.

The formation of a partnership, while providing a means of transferring management and ownership, places

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great importance on record keeping and written agreements. This is true, not only for income sharing and income tax reasons (while a partnership pays no income tax, an information tax return must be filed), but also for reasons associated with possible dissolution and/or death of one of the partners.

A severe financial burden can be placed on the remaining partner if, at the death of either party, no records are available to determine ownership of property or no plans have been agreed upon as to the disposition of the business. The partnership can be set up to provide for continuation after the older generation's retirement or after the death of a partner. These arrangements should be set forth in the written partnership agreement.

Another item that merits consideration when contemplating formation of a family farm partnership is the unlimited liability feature. Each partner is an agent for the partnership. Therefore, the acts of either partner while carrying out partnership business can bind the partnership. Both partners and their assets are liable for acts committed and obligations incurred by either partner in the course of conducting partnership business. The possible consequences of this feature emphasize the extreme importance of careful and thorough consideration prior to establishing a partnership.

If it is decided to form a partnership, the written document should address issues such as, but not limited to: (1) respective contributions made by each party; (2) how profits and losses are to be shared; (3) duties, powers, and limitations of the partners; (4) provisions for the continuation of the business at death of a partner, if so desired (including purchase options, buy-sell agreements, and the agreed-upon funding of same); and (5) statements showing that the spouses involved agreed to the proposed settlement procedures.

To ensure that everyone's estate planning goals will be fulfilled and the partnership intentions honored, property titles, wills, and other documents may need to be altered. While it is not a requirement that an attorney draft the partnership agreement, it is strongly encouraged.

### **Incorporation as an Alternative**

The corporate form of business organization is by far the most sophisticated. A corporation is a legal entity, distinct and separate from the individuals who own, manage or work for it. The corporation is owned by shareholders who may or may not be actively involved in the daily operation of the business. The distinction between the business and the owners is the major characteristic of the corporate form of business.

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As a separate legal entity, the corporate business can own property, sue and be sued, enter into contracts, and must pay income tax. Because of the legal and definite manner in which corporations must be formed and dissolved, it is extremely important that farmers and their families consider thoroughly the advantages, disadvantages, and possible consequences of this form of conducting the farm business.

### **Advantages of Corporation**

A corporation allows the older and younger generations to contribute some or all of their assets to the business, and in return each is provided with shares of stock equal with their contribution. Thus, the actual property owned by each after incorporation is stock and not the specific piece of property contributed. This makes possible the convenient transferring of business ownership from the older generation to the younger generation by merely transferring shares of stock. Young farmers can acquire more of the business as they accumulate dollars to invest, or when the older generation decides to phase out and transfer stock to the younger generation.

Another advantage of the corporate structure and having assets represented by shares of stock, is that the business can continue virtually uninterrupted after the death of a shareholder. The

corporation exists as long as the shareholders wish. It can withstand ownership changes caused by one generation replacing another because shares of stock rather than physical property pass to the next generation.

Farmland owned by either party may or may not be transferred to the corporation in return for shares of stock. There are advantages and disadvantages to both alternatives. If the land is in fact left out of the corporation, the family corporation can rent the land from the older generation/ and or the younger generation. Thus, as discussed in relation to partnerships, the older farmer may in effect assume the role of a landlord and the corporation the role of the tenant.

Family farm members can be full-time salaried employees of the corporation as well as owners. Therefore, as the older generation reaches their retirement age they can conveniently withdraw from the actual labor and management of the business but still remain as an owner. Thus, the corporation provides a lot of flexibility in terms of turning the management over to the new farmer.

One of the major advantages of the corporate structure is the limited liability feature. Shareholders are liable for the debts of a corporation only to the extent of the shares of stock they

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own *unless* they have signed personally, as well as agent of the corporation, as surely for a corporate debt. If, on the other hand, a corporation becomes insolvent, shares in it are worthless. Thus, if farmers' assets are all in shares of stock, they have lost all of their property.

The income tax advantage of a corporation may be of major interest if the business income is sufficiently large. Tax advantage to the business and shareholders should be identified before a corporation is decided upon. Because a corporation is a legal entity, unlike the partnership, it is also a taxpayer. However, the corporate tax rate schedule may offer sizable tax savings available with sufficient planning.

There may be other advantages of the corporation as a form of family business arrangement. Some of these include possible increased efficiency over time, possible increased credit status, adding flexibility in estate and retirement planning, and possible fringe benefits available only to corporations.

### **Disadvantages of Corporation**

Disadvantages must also be considered. The first might simply be the initial costs of incorporation. Initial costs may include filing fees, preparation of the articles of incorporation (this document describes the compact with state and defines the scope and organization of

the corporation), and attorney fees. In addition, annual fees and taxes are required to conduct business within a state. These fees are not required of other types of businesses.

Some consider the strict requirements of formal organization and accurate record keeping a disadvantage. A corporation must keep complete and accurate records of accounts, minutes of its shareholder and board of directors meetings, and a record of its shareholders with the number and class of shares held by each. Reports must be filed when certain changes take place in the capitalization or issuance of shares. Annual business reports must also be made to the state. While some may consider this a disadvantage, it could be a major improvement over other forms of business.

While there are obvious income tax advantages discussed above, there can also be tax disadvantages. As family members are employees of a corporate business, social security taxes will be higher than they would be if self-employed. Also, the corporation does not receive the favorable tax treatment on capital gains items or first year depreciation, available under other forms of business arrangements. There is also the possibility of double taxation of some of the income. This occurs when the corporation pays corporate

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income tax on income which is retained in the business and after distributed to shareholders as dividends. Dollars are taxed as income to the corporation and dividends are taxed as income to the shareholders. Some states also have an intangible personal property tax associated with owning shares of stock .

Another feature that may be overlooked is that, other than member shareholders, few individuals may want to buy shares of stock from a minor shareholder. If members do not want to buy minority shares at the fair values, the minority share holder will either be "locked in" or forced to sell at less than fair value.

It should be obvious that while there are many advantages to the corporate form of business for a family business, there are also disadvantages that must be considered. In most cases a corporate form of business structure should be "matured into" rather than be the initial form of a family business. It is essential to consult legal council for detailed discussion of all facets of corporations and advice before deciding on the corporate form of business.

In-depth information regarding farm estate and business planning can be found in Neil E. Harl's book titled "Farm Estate and Business Planning 16<sup>th</sup> Edition."

## **Final Consideration – Put It in Writing**

Regardless of which form of arrangement the family initially chooses, or which permanent form eventually results, the agreements should be written. As a part of the initial agreement there should be discussion of how the arrangement will be dissolved or discontinued. Even in the most ideal situation, parties change, objectives change and personal conflicts may arise resulting in a decision to discontinue the joint farming arrangement.

The ability to dissolve or dismantle the business without additional injury to personal and family relationships is very important in such situations. A complete record of capital contributions and income sharing from the outset can minimize difficulty at this point. Plans for arrangement of property titles, the division of specific business assets, and determining final interests in the partnership or corporation should be documented. Equally as important as providing for the continuation of the business is providing for final settlement if the need should arise.

## **Execute Strategies and Arrangement:**

A successful family farm arrangement

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has to be measured in terms of whether the goals of both generations are accomplished. As these are long-run considerations, success cannot be evaluated after one or two years. Even though careful consideration regarding all major aspects of the arrangement is given prior to establishing an agreement, total success is not guaranteed. As noted earlier, changes will occur that necessitate adjustments. In all arrangements, some tough spots may will have to be worked out. To have a successful arrangement, all parties must be dedicated to the arrangement and continually strive to make it work.

The following items are very important in keeping problems from arising, and in minimizing the effects of those that do. Most of these have been mentioned earlier:

Keep the farm business and family matters separated. Have specific living facilities for the different families

Have an understanding regarding working hours, weekend responsibilities and time off

Outline specific areas of individual and joint responsibility and adjust these as the situation warrants

Communicate! Discuss decisions to be made and things that are bothering you openly, honestly and regularly. Remember that

communication involves both talking and listening by both parties.

When decision making involves two or more parties, some give-and-take is necessary. Compromises are often the best solutions

Recognize that because future events cannot be seen with certainty, wrong decisions will be made by even the best managers. The words "I told you so" should never be used by either party in a family agreement when decisions turn out to be wrong

Set up a regular schedule for discussing problems, reviewing business progress, and making decisions. This does not mean you shouldn't discuss things at other times, but it does form them to regularly stop long enough to communicate. This should be done even during the busiest times of the year

All major agreements should be put down in writing. This is not an indication of lack of trust; it merely protects both parties in case something happens to one of them.

Follow through on all agreements unless both parties agree that adjustments of past agreements are advisable. This is particularly true in matters of managerial

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responsibilities and farm ownership transfer

Keep complete and comprehensive records of the farm business. This is vital for accurate business analysis (which is the basis for sound decision making), and the distribution of business income.

Accurate records must also be kept of the capital investments made in the business by each party

There may be times when it seems that a compromise between parties is impossible. Set up a pre-determined procedure for arriving at a decision. A third party advisor, or a plan for binding negotiation could prevent a small problem from becoming insurmountable

Set up an insurance program to protect the business and both parties from financial disaster. The program should contain appropriate amounts of health, liability, property, mortgage, and life insurance. Life insurance can be used to fund buy-sell agreements which should be an integral part of the partnership agreement.

Farming today is running a business – a much bigger business than most people realize. The size of many farm businesses in the United States has

increased greatly in the past decade. Family business partners must recognize that the increase will likely continue in the years to come. This means that they will have to develop into a progressive, efficient management team. To be successful they must not only keep current with and utilize improved crop and livestock technology, they must stress the business aspects of their arrangement. They must keep and analyze their farm business records, and in their decision making they must use the best planning techniques available. Management “tool kits” must contain the latest budgeting techniques, including cash flow analysis and other financial management tools. Descriptions of these tools can be obtained at your County Extension Office. A family farm business must be efficiently managed and sufficiently large to provide a living income for both families.

A family farm business can be one of the most rewarding types of farm business organizations possible. However, it can be a sad situation, too, because both business and family issues are involved. Thorough prior planning, continued open communication, and a genuine concern for each other will certainly go a long way to ensure success.

# Getting Started in Farming

## 3: Part-Time or Small Farms

### Introduction:

Small farms<sup>1</sup> make up a large sector of the farms in the United States. The 2007 U.S. Census of Agriculture shows that 1.2 million out of the 2.2 million principal farm operators in the nation report something other than farming as their primary occupation<sup>2</sup>.

In 1929, only one farmer in 16 reported 200 or more days of off-farm labor. That number increased to one in six by 1947. Today, one in three farmers have a job outside of farming where they work more than 200 days.

It is important to remember that farming is a business. Like any other business, an individual must look at the advantages and disadvantages of operating a farm and evaluate key aspects including all parties involved with decision, resources available, and different enterprises. Even though part-time farming is not your career, it can still seem like a full-time job at times. It is important to fully prepare yourself for everything that comes with the responsibility of having a small farm.

There are many different motives people have for wanting to get into part

-time farming ranging from a desire for the open space and learning experiences for children to a transitional step into full-time farming. If you are simply looking for a place to live in the country for the scenery and your own garden, a smaller operation with plenty of scenery surrounding might be a better choice to meet your goals.

Information in this publication provides potential part-time farm operators with a foundation for decision making. Additional information is offered at local and state extension services. Questions regarding a part-time farm operation can be answered by your [local Agricultural Extension agent](#).

### Why do I want to farm?

The two most important questions that should be asked first is "Why do I want to have a part-time farm?" and "What do I expect to obtain from the farm?" Once these questions have been answered, develop goals for the purpose and function of the farm. This will help set up a long-term plan using the farm system best suited for you.

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<sup>1</sup> "Small farm" is a broad term that is defined by the National Commission of Small Farms as a farm with gross sales less than \$250,000 a year.

<sup>2</sup> A common definition of a part-time farmer is one who works 150-200 days off the farm.



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### **Advantages and Disadvantages of Part-time Farming**

When deciding whether to farm on a part-time basis, assessing both the advantages and disadvantages will help you determine the best fit for you.

**Advantages** -Part-time farming is not right for everyone, but it can support a healthful way of life in the country away from urban congestion. A farm can provide open space and learning opportunities for children. If the family can furnish the necessary labor and management, and choose the right enterprise, a farm can supplement cash income.

The physical labor of the farm may provide satisfaction and have a therapeutic effect for some people. This same labor can become overpowering and a drudgery to those who are not accustomed or conditioned to it. Finally, the air and light pollution may be less in the country than in town.

**Disadvantages** Advantages for some become disadvantages for others. For some people, being far away from neighbors or town can cause a feeling of isolation. Part-time farmers with family have to prepare for higher transportation costs, especially if members are involved in many activities in town. Farm life can become confining and boring to family members, particularly if they select enterprises that conflict with their goals

and desires. For example, some livestock enterprises must be tended to every day.

Loss of a crop or an animal is always somewhat traumatic, but it can be even more devastating for a part-time farmer who may lack the commercial farmer's philosophy on these inevitable losses. Losses due to market conditions may be catastrophic to people who are not accustomed to farm price fluctuations.

Finally, although air and water pollution may be less or different in the country than in town, they are not completely eliminated. The family may simply exchange industrial smoke and car exhaust fumes for animal waste odors and weed pollens.

Getting started in farming is less financially attractive than it was 50 years ago. The risks involved are high. A lot of initial capital investments must be purchased.

The ultimate success of a farm operation depends on how well the individual or their family members are able to cope with potential disadvantages, or how strongly they feel the advantages of farm life outweigh the disadvantages.

### **Consider all Parties Involved**

Deciding to farm part-time is a big decision that cannot be made by one person if there are multiple people

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affected by it. The decision is much simpler if there is only one person being impacted. However, if you have a family all family members affected in the decision must be consulted.

There are several questions that need addressed.

Would your family be open and accepting of a new lifestyle?

How will the move affect your significant other?

Will this affect their jobs/activities?

If your farm is far away from the nearest school, can your children adjust to driving a long ways to school and extra-curricular activities?

You also need to ask how involved your family is willing to be in the small farm operation. A part-time farm is like any other business that needs labor to do the work. Do your children or significant other need to be part of the labor?

Make sure you are looking into the future. Your family may be able to provide the necessary labor now, but will your children be involved in school or community activities that will prevent them from helping as much? Off-farm activities do not prevent a family from farming, but the nature of the off-farm activities and the time involved should be considered.

## **Evaluate Resources**

Starting a small farm may sound easier than it really is. Particularly if you grew up on a farm, you might think you know everything there is to know. Farming is a continuously changing occupation and it is a business that requires good management. One wrong move could jeopardize an entire year of farm income. It is important that you read publications, talk to experts, and visit with other farm operators that have similar goals to your own.

It is important to evaluate both personal and physical resources before making any decisions regarding your farm operation.

## **Personal Resources**

**Education.** Although experience will take you a lot further in farming than education will, it is nice to have a college degree under your belt. People who plan on farming after college often major in agricultural studies, agricultural education, agronomy, agricultural business, or specific enterprise majors. If you do not have any farm experience, it is highly suggested to attain some form of degree whether that is two-year or four-year. However, hands-on experience is more valuable than sitting behind a desk and reading about farming. The best way to learn about farming is to

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gain experience as a hired hand on a farm. If you cannot get more schooling or work at a job to gain farming experience, think twice whether part-time farming is right for you. It requires just as much knowledge and experience as full-time farming.

**Knowledge.** Always keep up-to-date on the latest trends and technologies in agriculture. Subscribe to different agriculture magazines, such as *Farm Journal* or *Successful Farming*. Follow blogs or agricultural companies on Twitter. The agriculture industry is always changing; it is crucial to stay on top of the latest news.

**Off-farm income.** There is an initial investment in any farm enterprise you take on. Some require more capital than others. Does your current job give you the time, resources and flexibility needed to farm part-time? It may be several years before you receive a return on any of your farm investment. You must be sure that you are dedicated to the farm before you jump into any sort of enterprise.

Unless you already own or inherit a farm, you will need to look for one that offers the opportunity to achieve your desired goals. For example, if one of your prime objectives is to develop a livestock operation to produce additional family income, you should look for a farm that will permit development of such an operation.

Remember, if you are simply looking for a place to live in the country for the scenery and your own garden, a smaller operation with plenty of scenery surrounding might be a better choice to meet your goals. Once you've decided what type of farming unit you are looking for, the following are some key factors to keep in mind selecting your part-time farm.

### **Physical Resources**

**Location.** Choose a location that is within easy commuting distance from your family's current jobs and other employment opportunities. Then if you change jobs, you won't necessarily have to sell the farm. The presence of alternative job opportunities will also help make the farm more appealing if you decide to sell it. It is important to evaluate how much commuting to and from work will cost and if you can afford it with high gas prices.

If you have or are planning to have children, check the local schools; the school's website is a good place to start. You can find the activities, programs, policies, and much more information to help you evaluate the quality of education your children would get. Talk with parents that have children in the school district for further information to get a real feeling for what the school is like. Also assess the provisions of transportation to and from the farm and school.

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There are other necessities that you need to check for in the locality of the farm such as fire protection, sewage system, gas, water mains and electrical lines. If these facilities are not already in place, getting them may be more expensive than you expect.

One of the most important factors to consider is your water source. If you are considering a part-time farm where the water comes from a well, find out if there is a good well on the farm or the probable cost of having one drilled. A pond may provide adequate water for livestock and garden. Pond water can be filtered for human use, but most part-time farmers do not want to deal with the troubles and hassle.

**Topography and Soil** Is the land suited to the crops you intend to raise? Soil type, drainage, or degree of slope can make a difference between good and poor crops. Does the land already have conservation practices in place such as terraces or diversions? What conservation practices are needed to protect from soil erosion. Contact your county extension office for more help on topography and soil.

**House** If there is a house already on the farm, will it make a satisfactory full-time residence? Assess the costs that are needed to do any remodeling or redecorating. If the house is not wired adequately, properly insulated or if plumbing or a central heating system

must be installed, look into the costs of making these improvements.

Sometimes it can be cheaper to build a completely new house.

### **Enterprises**

Even if you are not entering farming to make a living, you do not want to lose too much on small projects you might undertake. The key requirements for a successful farm business are average or above efficiency, an adequate volume of business and the selection of combination of crops and livestock that fit available resources (land, labor, management and capital.) Other essential factors for a successful farm operation include a working knowledge of production methods, attention to buying and selling, keeping current on the economic climate and new technology, keeping useful records, and thorough financial planning.

Beef cattle, hay, poultry, and grain/soybean account for the majority of small farm operations. Information on more enterprises can be found at the [Leopold Center](#), a research and education center at Iowa State University created to identify and reduce negative environmental and social impacts of farming and develop new ways to farm profitably while conserving natural resources. Your local extension office is a good resource for more information about different

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enterprises. Extension has staff with expertise in these areas to help you throughout the entire process.

## Livestock

Characteristics of the farm family, available labor, management and capital are important in selecting a type of livestock enterprise. Once you have assessed the major resources available, look at which livestock characteristics most closely match up with the owners. For example, a farmer with ample amount of labor and rolling hills would match up well with dairy cows, assuming there is a market for the milk. If the farmer doesn't have a good supply of labor on a farm with good pasture, raising beef cattle might be better suited. If the farm is well adapted to corn production, the owner could raise sows and sell feeder pigs.

There are relatively high risks involved with livestock production. If you want a particular type of livestock, you need to choose a farm that is adapted to the crops needed for that kind of livestock. If you want a beef cow herd or sheep, you should look for land that is primarily hay or pasture production. If you want to produce hogs, you should look for a farm that can produce corn.

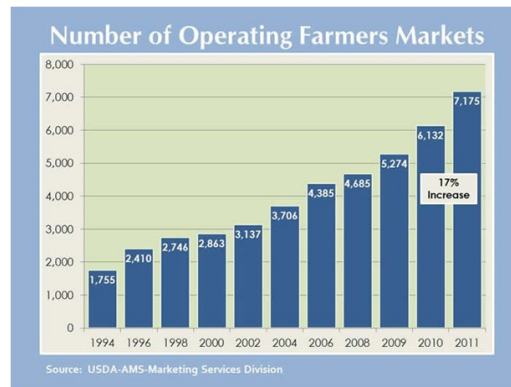
## Crops

The common subcategories of crop enterprises are field crops, tree fruits, small fruits, vegetables, and specialty or miscellaneous crops. Crop

enterprises do not require as much daily work as livestock enterprises, with the exception of periods such as planting and harvesting. However, cropping requires enough land and expensive equipment.

## Finding a Niche

Over the past several years, the popularity of the Farmer's Market has grown across the United States.



## Goals

Business aspects of farming depend first on the goals of the farmer: recreation, break even, make a profit, or others.

Just as you would with any other business, you must set goals for your part-time farm to keep on track. Good goals should be SMART: specific, measurable, achievable, realistic, and timely.

When selecting the enterprise, the three most important factors are your values, goals and resources.

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### **Tax Consideration**

The Internal Revenue Service (IRS) does not care if you have a part-time or full-time farm. Any farm expenses are tax deductible. You still have to sort out the personal expenses such as electricity and water from your house if it is on the farm. A farm must be profitable one out of five years to be classified as a for-profit business. Horse farms must be profitable one out of seven years. Otherwise the farm is a hobby.

### **Conclusion**

People considering part-time farming must acknowledge that farming is a business that needs capital, labor and

management, as well as land, buildings, and equipment.

Potential part-time farmers should thoroughly weigh the pros and cons of operating a farm, take all factors into consideration, and keep their goals in mind when making decisions. The enterprise or enterprises you choose should fit into your goals. In all cases the results are determined by the level of efficiency, the volume of business, the choice of enterprises, and a number of other related factors. Remember goals can always be reevaluated, so be careful not to get stuck in a rut.

# FSA Loans: a Financing Alternative for Beginning Farmers with Limited Capital

James F. Radintz, Assistant Deputy Administrator,  
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If you are farming now, or if you want to farm and have done some research, you know that farming is a capital intensive business. Regardless of the type of farm, starting and growing a farm business usually requires more cash than you have on hand. Where will the additional cash come from? Regardless of what you may read on some websites, or in some “free money” guides, there are no Federal grant programs specifically for starting or operating a farm. The alternative, then, is to borrow the additional money from one of several sources.

## Credit Sources

There are a variety of sources of financing for a farm operation. Potential sources of credit include: Commercial banks and credit unions, farm supply and equipment companies, and individuals; there are also some specialized sources of credit for farmers - [Farm Credit System](#) lenders, state farm finance programs (availability varies widely from state to state), and the Farm Service Agency (FSA).

## Getting a loan

Many beginning farmers find it hard to get the credit they need. Why? Well, all

lenders want assurance that a loan will be repaid. When you apply for a farm loan, the lender considers factors like historical performance, your abilities and capabilities, and how much cash or assets that you already have. As a beginning farmer, you may have little or no performance history to show a lender as evidence that you will be able to successfully generate farm income and pay the loan back. If that is your situation, and you do not have significant assets like land, farm equipment or livestock to offer as collateral for the loan, a lender will probably consider you to be too risky for a loan. This can leave you in a “catch-22”- you can’t get the loan you need to get started or grow your farm business because you don’t have enough history, experience, or assets, but you can’t build those things without a loan to get started. So what can you do?

## FSA loans

When you cannot meet the standards of a commercial lender like a Bank or the Farm Credit System, the Farm Service Agency (FSA) is an alternative. The

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FSA is an agency of the U.S. Department of Agriculture that makes and guarantees farm loans and provides technical management assistance to eligible applicants. FSA is the USDA's lender of first opportunity. This is because the purpose of FSA loans, established by law, is to assist farmers who cannot get loans without government help. Farmers who get FSA loans are often beginning farmers who do not qualify for a commercial loan because they lack the resources, assets, or experience required by commercial lenders. The FSA is a temporary source of credit whose goal is for its borrowers to move to conventional credit, once they become financially strong enough to meet commercial credit standards. To receive a loan, applicants must meet legal eligibility requirements, present a realistic business plan that shows they can repay the loan, and provide collateral at least equal to the loan amount.

### **Direct Loans**

Direct loans are made and collected by the FSA itself, using government money. FSA direct loans include not only financial, but technical assistance as well. An FSA loan officer will work with you to develop and assess your farm operating plans. If you have not completed a financial management course, you will be asked to complete one as a condition of receiving a direct

loan. The loan officer will also meet with you periodically, to assess your financial progress and help you identify problems and potential solutions or locate experts who can help you.

### **Guaranteed Loans**

Applicants who can obtain credit from a commercial lender with a guarantee from FSA must do so, rather than obtain a direct loan. FSA loan guarantees can allow a private lender to serve, or continue to serve, a farmer who cannot be served on a wholly conventional basis due to financial risk factors. Guaranteed loans are made and serviced by commercial lenders, such as banks, the Farm Credit System, or credit unions. FSA guarantees the lender's loan against loss, up to 95 percent. FSA has the responsibility of approving all eligible loan guarantees and providing oversight of the lender's activities.

### **Kinds of FSA loans:**

*Farm Ownership* loans will help you purchase or enlarge a farm or ranch, construct a new or improve an existing farm or ranch building, pay closing costs, and pay for soil and water conservation projects.

*Operating loans* will help you purchase livestock and equipment and pay for annual operating expenses and minor real estate repairs.

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*Emergency loans* will help you if you suffered a qualifying loss caused by natural disasters that damaged your farming or ranching operation. Emergency loan funds may be used to restore or replace essential property, pay all or part of production costs associated with the disaster year, pay essential family living expenses, reorganize the farming operation, and refinance certain debts.

*Conservation loans* will help you complete a conservation practice as a part of a USDA approved conservation plan.

*Land contract guarantees* provide certain financial guarantees to the seller of a farm or ranch through a land contract sale to a beginning or socially disadvantaged farmer or rancher.

### **Focus on Beginning Farmers**

Concern over the future of agriculture and the need to find ways to help beginners to enter farming led Congress to establish special FSA programs and to reserve loan funding for beginning farmers. The Down Payment Farm Ownership Loan is only available to beginning and socially disadvantaged farmers ("socially disadvantaged" means members of a group which has been subjected to racial, ethnic, or gender prejudice because of their identity, without regard to their individual qualities). In addition, land contract guarantees are only available

on land contracts to a beginning or socially disadvantaged farmer or rancher. Each year, 75% of direct farm ownership funding, and 50% of direct operating loan funding is reserved for beginning farmers; a portion of guaranteed loan funding is reserved as well. To qualify for these special opportunities, you must meet the legal definition of beginning farmer.

For FSA loans, a beginning farmer:

- Has not operated a farm or ranch for more than 10 years

- Provides substantial day-to-day management and labor on the farm or ranch

- Agrees to participate in FSA loan assessment and borrower training programs

- Does not own farm property, or who does not own land totaling more than 30% of the median farm or ranch acreage in the county where the property is located; and

- Meets other FSA loan program eligibility requirements

*Down-payment loans*- These farm ownership loans provide an amount equal to 45% of the purchase price or appraisal value (whichever is lower) of the property to be purchased. The interest rate is set by law at 4% less than the regular direct farm ownership rate but not less than 1.5%, for a term

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not to exceed 20 years. At the writing of this article, the interest rate is 1.5% and has been at that rate for many months. The applicant must make at least a 5% cash down payment, and the remaining balance, not to exceed 50%, must be provided by a commercial lender. In some cases, the commercial lender's loan can be guaranteed by FSA. The non-FSA loan can hold the first mortgage-lien position. The FSA loan is limited to 45% of either the appraised value of the farm or \$500,000, whichever is less.

### **Are You Eligible to Apply for an FSA Loan?**

Depending on the kind of FSA loan you want to apply for, you will have to meet certain requirements. Different kinds of loans have different eligibility requirements. Before you apply for a loan, you should review the requirements. If you can answer yes to all of the following questions, then you are probably eligible:

- I have enough training, education, or experience running a farm that I can effectively manage my farm
- I have at least 3 years of experience in managing a farm business (*Farm Ownership loans only*)
- I have operated a farm for less than 10 years (*Beginning Farmer loans only*)
- If I currently own a farm, it is less than 30% of the median farm size in my county (*Beginning Farmer Ownership loans only*)
- I can make a cash down payment of at least 5% of the purchase price for the farm (*I want to buy Beginning Farmer Down Payment loans only*)
- I am a citizen of the United States or a legal resident alien
- I am legally able to take out a loan (I am an adult and can make my own legal decisions)
- I am unable to obtain the credit I need from commercial sources at reasonable rates and terms
- I can show that I have a good credit history (I pay my bills on time)
- My operation is a family farm or ranch, and the majority of the physical labor and management is provided by me, a family member, or another entity member
- I have never had an FSA loan before that I failed to pay back
- I am currently not behind on any loans or payments that I owe to the United States (student loans, income taxes etc.)

If you answer "no" to any of the requirements, it is a good idea to discuss that requirement with an FSA loan officer before you go further.

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## **The most important step- a business plan**

In order to get an FSA loan, a guarantee on a loan made by a commercial lender, or a land contract guarantee, you need to create a detailed business plan. A good business plan is essential, regardless of where you apply for a loan, or even if you think you can start without a loan. A business plan describes:

- Your mission, vision, and goals for your farm business.
- Your current assets (valuable things or investments you own), and liabilities (debts, loans, or payments you owe).
- What your farm business will produce, and what makes your products unique, valuable, or different from other farmers' products.
- How and where you will advertise and sell your products and develop your farm business.
- How you will earn enough money to pay your business expenses and support your personal family living expenses.

Thinking about all of these different issues may seem overwhelming to you. You might be thinking, 'Do I really need to create a full business plan? It seems like a lot of work, and all I want to do is sell my products at farmers' markets and local stores and restaurants, how

hard can that be?' The answer is YES, you should create a good business plan.

## **Why you need a business plan:**

1. A good business plan is required to get a loan. Any lender, including FSA, will look closely at your business plan to judge whether they think your business can work and if you can afford to repay the loan.
2. A business plan will help you get organized. A business plan can help you to make sure you are taking all of the necessary steps and remembering all of the details.
3. The business plan will act as your guide. Later you can look back at it to measure your progress.
4. A business plan will help you to think carefully about why you want to farm. Is it because you enjoy working for yourself, or you like being outside, or raising food is your passion, or because it provides a supportive environment for raising your family?

As your business grows, you can look back at your business plan and think about whether it is fulfilling those values. Your business plan is very important. It shows that you have seriously thought about your goals and plans for the future. It shows that you understand all parts of your farm

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business. This means that you have thought about all of the possible expenses you will pay, and how much you need to earn from your sales to pay those expenses. It also shows why you think you can succeed in your business, and how you plan to reach your goals. Your business plan is like a road map that shows how you will move from where you are now to where you want your farm business to be in the future. Finally, a good business plan that describes your financial and lifestyle goals will help you to evaluate your progress as you establish your new farm business or continue to grow your farm in the future.

How do you get started on a business plan? Creating a good business plan takes a lot of time and effort. You should find a business advisor who can help you in the process. Fortunately, there are many sources for professional advice. Your FSA loan officer may be able to refer you to an advisor who has experience in advising farmers. The Small Business Administration (SBA, <http://www.sba.gov>), an independent government agency, offers business planning assistance through its Small Business Development Centers (SBDCs). There is also an organization called SCORE operating through SBA that can match you up with a volunteer business advisor. SCORE volunteers are people who have a lot of experience

in running and managing businesses, so they can give you advice on how to create a good business plan. The USDA's National Institute of Food and Agriculture administers the Extension Risk Management Education (ERME) program through four regional ERME Centers and a fifth "Digital Center" (<http://www.extensionrme.org/>). The program's objective is to educate farmers and ranchers on the full range of strategies to manage the risks inherent in agriculture, particularly production, price, finances, legal issues, and human resource management. Your local cooperative extension office may also be able to provide you with information for your operation.

### **Apply for an FSA Loan**

When you have a business plan, the next step in applying for an FSA loan is to collect your important papers and complete required forms. Your FSA loan officer can provide assistance in completing the FSA forms or can identify other sources of assistance in your area. Although it may take time to gather the information to prepare your application, it will save time when FSA is reviewing your application. On page 63 is a list of the documents you will need for your FSA loan application:

### **FSA Forms**

Forms are available free online at

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<http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home>

Application forms are also available at any FSA office. You can find the address of your local office in the phone book under “government offices” or through the office locator available on the FSA website at

<http://www.fsa.usda.gov> Please note: There may be other forms that you need to fill out, or other documents you must provide, depending on your situation. Your FSA Loan Officer should tell you any additional forms or information needed you need to complete.

### **Submitting Your Direct Loan Application**

By now, you have done most of the hard work. You have created your business plan, completed your application forms, and gathered your documents together to prepare your FSA loan application. You may submit your application by:

- calling for an appointment with an FSA loan officer
- mailing, faxing, or hand delivering your application to your local FSA office; or
- electronically submitting your application if you have registered through the e-gov system. For more information on submitting your application electronically, please visit the website

<http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home>

### **Helpful Hints:**

- In most cases, FSA will schedule a meeting shortly after receiving your loan application to discuss your request
- Be sure to ask questions if there is anything you do not understand. Your FSA loan officer will explain anything that you do not understand. FSA may provide technical assistance or refer you to a subject-matter expert. Ask for help if you need to; technical assistance is part of FSA’s unique role in farm lending
- If you are not satisfied with the level of service that you are receiving from the local FSA office, you may contact the applicable FSA State Office or FSA National Headquarters. The contact numbers for these offices may be found at <http://www.fsa.usda.gov> .

### **What Happens After You Submit Your Direct Loan Application to FSA?**

Stay in contact with the office; if you do not hear from FSA within the timelines noted here, call or email about the status of your application. After receiving your application, FSA will provide written notification of receipt

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within 2 days. Within 10 days, your application will be reviewed to determine if all required forms and documents have been submitted and notify you in writing if any items are missing. When has received all the forms and documents necessary to complete your loan request, you will receive written notification within 10 days. A final decision must be made on your loan application within 60 days of receiving all required forms and documents, but most decisions are made within 30 days.

### **If your application is turned down**

Sometimes even FSA has to say no. You may not meet one or more of the eligibility requirements, or your business plan may not be viable. If FSA denies your application, you will always receive a written notification. The letter will include an explanation of why your application was turned down. You will also have the opportunity to meet with the loan officer to discuss the decision. You can provide more information to answer the reasons for denial, and discuss alternatives that might allow the loan to be approved. The loan officer can also tell you what steps to take to correct the problems that caused your application to be turned down, so that when you apply in the future, your application can be approved. If you disagree with the denial decision, you have the right to

appeal the decision and receive a hearing by a neutral hearing officer outside of FSA.

### **How Do You Apply for a Guaranteed Loan?**

If you believe that an FSA guarantee would meet your credit needs, contact your lender. Your lender will assist you in preparing the forms needed. The forms for a guaranteed loan application may be obtained from the local FSA office or from the FSA website at <http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home>

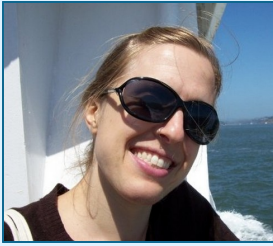
Your lender will submit the guaranteed loan application to FSA. If you have additional questions about the FSA guaranteed loan program or the beginning farmer land contract guarantee program, contact an FSA loan officer; they can answer questions you may have about these programs.

### **To sum up**

If you are finding it difficult to get the credit you need to start or grow your farm business, don't give up! Explore FSA farm loan programs, and talk to a loan officer if you feel an FSA loan might work for you. You could join the ranks of a growing number of beginners that FSA has been able to help. In 2011, FSA made nearly 15,000 beginning farmer loans totaling over \$1.7 *billion* dollars. An FSA loan could be your opportunity to start or grow your farm.

**DOCUMENTS NEEDED WITH FSA LOAN APPLICATION**

<b>Form</b>	<b>Use</b>
FSA-2001 Request for Direct Loan Assistance	Used to obtain general information regarding your business, and the amount and planned use of the loan requested.
FSA-2002 Three-Year Financial History*	Used to gather 3 years of financial history for your operation.
FSA-2003 Three-Year Production History*	Used to gather 3 years of production history for your operation.
FSA-2004 Authorization to Release Information	Authorizes your employers, financial institutions, and creditors to verify and provide FSA with your employment, income, or other financial information in connection with submission of your application.
FSA-2005 Creditor List	Used to gather information regarding your creditors.
FSA-2014 Verification of Income	This form is used to verify an applicant's non-farm income to make feasibility determination on the applicants request for assistance.
FSA-2037 Farm Business Plan Worksheet Balance Sheet	This worksheet is used to gather information about your assets and liabilities
FSA-2038 Farm Business Plan Worksheet Projected/Actual Income and Expense	This worksheet is used to gather your income and expense information
FSA-2302 Description of Farm Training and Experience	Provides details on your farm or ranch training and experience if you are a new applicant or are adding a new enterprise to your operation.
<b>Other Information You will need**</b>	
Tax Returns (3 years)	The income and expenses reported on your tax returns will be used to evaluate your business history.
Leases and Contracts	Farm lease, rental agreements, or other contracts that affect the operation of your business.
Environmental Compliance	An FSA loan officer will help you in determining if you have met all applicable environmental regulations and requirements.
Credit Report Fee	You will have to pay a credit report fee so FSA can obtain your credit history. The amount of the fee varies, depending on the structure of your business and how many people are applying for the loan.



## Matched Savings Accounts Provide Pathway to Success for Farmers

*Molly Bloom*  
*California FarmLink*

### **Introduction: What is an IDA?**

Individual Development Accounts, or IDAs, are matched savings programs that were created in the 1990s to assist people with modest means to establish and build savings for long-term assets such as a home, higher education, or a small business start-up. In 2005, [California FarmLink](#), a non-profit organization, started the first IDA program specifically for farmers. Several other groups around the country now also offer agricultural IDA programs. Regardless of the target audience, all IDAs function in the same basic way. A non-profit, credit union, bank, or a division of state or local government raises funds to match money deposited into the account by the saver at a specified ratio. This money is deposited into the saver's account as they complete the program. The organization partners with a financial institution to open and administer the savings accounts.

IDA programs designate a specific timeframe in which the saver must complete the program. With an agricultural IDA program, participants save for a specific asset to purchase or invest in. Participants are required to

complete financial education courses, and many IDA graduates say this is the most valuable part of their experience.

In 2011, the Beginning Farmers and Ranchers Development Program (BFRDP), administered by the USDA's National Institute for Food and Agriculture, funded an Educational Enhancement project led by California FarmLink to build the capacity of eight organizations across the United States to create or expand their own agricultural IDA programs. The three-year project is well underway, and the group has been meeting since December 2011 through regular conference calls and an in-person meeting in Pacific Grove, California, in April 2012. The project also hosts a website that provides a platform for this learning community to share documents and resources, pose questions, and generate answers and ideas to support each organization in building its own unique program.

### **Why Would a Farmer Want to Participate in an IDA Program?**

Beginning farmers and ranchers face significant hurdles to successfully enter the agricultural realm. One of the

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biggest hurdles is acquiring access to capital. Steve Schwartz, the founder and former Executive Director of California FarmLink, recognized this need and realized that IDAs would provide a pathway to financial growth that is often out of reach for new farmers.

Farmers and ranchers may be interested in IDAs for a number of reasons. Participation in an IDA program helps them to build capital for a specific purpose, while enabling them to learn to budget for savings. They leave the program with the money they saved, plus the amount that was contributed as the match.

Through the financial education courses and the process of setting aside the savings, IDA program participants learn solid financial management skills, develop or improve their recordkeeping systems, and learn how to set and achieve financial goals. At the completion of an IDA program, participants may also be able to leverage their success to obtain a loan or other financing. IDA participation encourages them to develop a relationship with a local financial institution, which could provide opportunities for financing, free checking accounts, or good interest rates for savings.

### **How Does an IDA Program Work?**

Each IDA program can choose the ratio of match funds to savings for each participant. These ratios range from one matched dollar for every dollar saved up to eight matched dollars for every dollar saved. California FarmLink's IDA program can serve to illustrate how this works.

California FarmLink raised matched funds from a variety of sources and decided to start the program with a 3:1 match. This means that for every dollar a participant saved, three dollars of matched funds were added to the participant's savings account. The matched funds only became available to the saver upon completing the program, which included financial education courses along with a minimum required amount of savings. For this program the farmers agreed to save \$100 each month for the duration of the 24-month program. As long as they stayed on track with their savings and had at least \$2400 in their account at the end of the program, their savings were matched with \$7200 from the grant funds, at the 3:1 ratio, resulting in an account total of \$9,600.

Depending on the program, there may be specific qualifications each participant must meet in order to enter

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the IDA program. Once qualified, participants must identify the specific asset they hope to purchase when they complete the program. The California FarmLink IDA program asked each farmer to specify an asset like a tractor, a greenhouse, or a down payment on a loan to secure additional land. One of California FarmLink's partners in the BFRDP Educational Enhancement IDA project, [New England Small Farm Institute](#) (NESFI), is starting an innovative IDA program in which the savings goal is a mentorship with an experienced farmer. A beginning farmer in the NESFI program would save funds to pay their mentor farmer for the learning experiences they provide.

The financial education requirements may vary by IDA program as well. California FarmLink's BFRDP Educational Enhancement IDA project is developing guidelines for financial education components that will be useful to farmers participating in these programs. Courses a farmer might take include topics such as understanding your credit score; cash-flow management; choosing a business entity structure; planning for retirement, and setting up an effective accounting system.

### **How Are IDA Programs Funded?**

IDA programs are funded in a variety of ways. Most often, the hosting organization receives matched savings funds from sources such as private

banks, foundations, and a federal grant program provided through the Department of Health and Human Services called Assets for Independence (AFI). The Assets for Independence program has funded a wide variety of IDAs since the pilot program started in 1998. These funds are targeted specifically for IDA programs.

Private banks can also be good funding sources for IDAs. Many banks are required by the Community Reinvestment Act (CRA) to help meet the needs of all borrowers in their regions, including low-resource and low-income residents. The CRA was passed in 1977 to reduce discriminatory credit practices against low-income communities, known as "redlining." Since banks are required to provide access to low-income members of their communities, they are often amenable to helping fund or administer IDA programs, which specifically serve the people they are required to reach.

Organizations interested in helping farmers access IDAs in their area can consider helping to obtain matching funds for the credit unions or community development organizations that are running those programs. Matching funds can be challenging to acquire, and organizations that administer IDAs welcome non-profit partners who can provide those

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matching funds. Partners may also have connections with local banks or foundations that are willing to provide agricultural IDA match funds.

### **Roadblocks for Ag IDAs**

While the AFI program has funded many beneficial IDA programs, it does come with limitations that can create roadblocks for programs working with farmers and ranchers. One issue is that AFI limits the amount of assets any one participant may have to qualify for funding. Their threshold is \$10,000 in assets, not counting one vehicle and one home, which can be lower than the total value of a farmer's equipment. This can preclude otherwise-qualified participants from an IDA program that is funded by AFI. AFI funds must be combined with private match funds at the time an organization applies for the funding, which can also be a roadblock.

In addition to the AFI asset limitations explained above, agricultural IDA programs face another set of roadblocks. Many organizations find it difficult to fund their own administrative expenses for work on an IDA program when raising their matched funds. Under the AFI program, only 15% of the funds can be used for administrative costs, and many private funders prefer to fund only the savings match. However, without sufficient funding for the extensive administrative

work that is required, organizations are unable to run their IDA programs.

A roadblock that an agricultural IDA program may face when approaching banks for funding is a lack of understanding in the financial industry about IDAs and why they can be so useful for farmers. When an organization is able to effectively explain the program concept and benefits to a financial institution, they often receive an enthusiastic response.

### **Where Can Farmers Find IDAs?**

The organizations that are participating in the BFRDP Educational Enhancement IDA project to develop their own IDA programs are located throughout the United States. They are: [Angelic Organics Learning Center](#), serving farmers in Wisconsin and Illinois; California FarmLink; [Cascade Harvest Coalition](#), located in Washington State; the [Center for Rural Affairs](#), in Nebraska; the [Land Stewardship Project](#), located in Minnesota; the [Michigan Land Use Institute](#); the New England Small Farm Institute, headquartered in Massachusetts; [Practical Farmers of Iowa](#); and the [University of Vermont](#). Cuatro Puertas, a New Mexico organization, is also taking part in this project. The participants are at different stages in the development of their IDA programs.

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Most of them plan to have an agricultural IDA program in operation by the end of 2013, if they don't already have one in place.

Farmers who are interested in pursuing an IDA and don't live near one of the participating organizations should talk with a representative at their local credit union to find out if there is an IDA program for small businesses that

might be available to a farmer. It is important that farmers understand the requirements for entry and that they are prepared to educate IDA administrators about how farm businesses work if they are not familiar with agriculture.

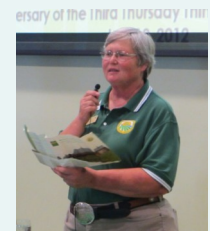
**More information** [California Farmlink](#) website or by phone: (707) 347-9309



# Beginning Your Farm Business

*Marion Simon, Ph. D.*

*Kentucky State University Cooperative Extension Program*



The entire farm family, along with the farm's regular employees, need to be involved in the planning of the farming operation. By doing this, each person's goals are evaluated to see if, and how, they fit into the overall goals of the farming operation, and to see if the goals can be realized. Have each person write down what he/she likes to do on the farm (e.g. grow vegetables), the number of hours each week that he/she wants to invest (e.g. I can spend 10 hours per week), what hours (time periods) work best for him/her (e.g. after school or weekends), and how he/she sees the future of the farm. Also, have each person write down what he/she does not like to do, or times that he/she is not available to be involved in farming or marketing activities.

Then have a family meeting. Develop a written mission statement for the farm to show why it exists, its values, what the farm business will be (or currently is with the family's modifications), and what it will accomplish. This provides the basis for developing the farm business's long-term plans, goals, and objectives with the farm's mission

statement as the target. The farm manager (or the designated family member) will then develop business plans, enterprise budgets, market plans, and financial statements to see if the operation shows a profit, has a positive cash flow, is a good use of time, labor and money, and has any opportunities or weaknesses that need to be addressed.

Business planning is about finding, describing and refining the farm's competitive advantages and moving the farm business in the direction to reach its goals and objectives. The operation needs both short-term plans (i.e., do I sell weaned calves this month or next month) and "strategic" or long-term plans (i.e., do I buy more land, put up a building, or do I invest in more breeding stock). These plans provide a roadmap for management of the operation that helps all parts of the farm (production, marketing, and financial) flow smoothly.

The planning process helps to:

1. Identify the goals of the farm business (what you want to

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accomplish). In short, the farm's goals should be SMART, attainable and move the farm along the targeted path. A SMART Goal is:

- **Specific** (a goal that has a specific thing to do and can be defined)
- **Measurable** (the goal can be measured and can be proven),
- **Attainable** (the goal is realistic, the farm business can reach the goal)
- **Rewarding** (the goal will move the farm operation toward what the family wants it to be), and
- **Timely** (there is a time limit to reach the goal).

2. Identify the farm's inventory and resources (what you have to work with):

- Physical and natural resources including water and soils
- Human and personnel resources
- Animal, pasture, and crop resources
- Equipment, facility, and machinery resources; and

### **Financial resources**

Assess the farm business and the environment in which it operates (where you are and where you may

want to go). Essentially, have the farm family so a **SWOT analysis** of the farm to list and identify:

**Strengths** of the farm (internal, what are the farm's competitive advantages)

**Weaknesses** of the farm (internal, where can the farm improve)

**Opportunities** (external, new opportunities for the farming operation)

**Threats** to the farm (external, what are the external problems and what can we do to offset them).

Analyze the performance of the farm business (how you have done in the past based on the farm's historical financial statements and records)

Decide upon a course of action (what you will do)

Implement the strategies (how you will do it) and

Evaluate the farm plan annually (is it working, were the goals for the farm met, does the plan need to be revised or need to be continued into the following year).

# Running a Farm Incubator Program 10 Years On

*Chris Brown*

*The Agriculture and Land-Based Training Association*



The [Agriculture and Land-Based Training Association](#) (ALBA) is a non-profit organization located in Monterey County, California. ALBA's mission is to advance economic prosperity of limited-resource farmers by enabling them to establish organic farming businesses. ALBA does this by operating an innovative farm management education and incubator program at two farm-based educational centers on 150 acres near Salinas and Watsonville, California.

## *Core Program*

The program provides long-term education, training and mentoring with the intent to transition farmer workers into independent business owners. In doing so, ALBA supports regional economic development through new business creation, job creation and stimulating local investment and agricultural production, while also promoting environmentally friendly farming practices. ALBA improves the livelihoods of the region's low-income farm workers, by leveraging their agricultural skills and entrepreneurial drive to connect them to lucrative markets for organic produce.

At the core of ALBA's program are the Programa Educativo para Agricultores (PEPA) and the Small Farm Incubator

program, designed to develop the necessary knowledge, skills and resources to successfully establish a successful small farm business over the course of 3-5 years.

Historically the intended audience for the program has been socially disadvantaged, limited-resource, immigrant Latino farm workers aspiring to become farmers. In 2008, ALBA expanded the audience to a minority of middle class farmers in order to increase the cultural and socio-economic diversity of the program to enhance learning opportunities for all participants. Approximately 30 people participate in PEPA each year, at least 80% are low-income and 30% women.

PEPA is a nine-month, intensive education and training program that includes both classroom instruction and field-based training. Each year, 30 participants are enrolled in the college-accredited curriculum. The course is run by ALBA staff members who have Masters Degrees in Crop Science, Environmental Policy and Business Administration. In addition, numerous local professionals contribute to classroom discussion from the agriculture, business, NGO and policy

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communities. The course includes topics, such as:

- Organic production practices
- Crop planning
- Farm equipment use and maintenance
- Irrigation methods
- Business planning and small business management
- Marketing and communications
- Opportunity to apply practices on a demo plot

Upon graduation from PEPA, many participants return to their own farm



land, use the credential to find better employment or continue studying at local colleges. Between 10-15, however, stay in the ALBA program, entering the Small Farm Incubator program at ALBA where they spend up to five years establishing their organic farming business in a supervised low-risk environment. Currently, 30 farmers are in the incubator, but this number will

grow to nearly 50 farmers by 2014. The incubator program offers participants:

- Subsidized access to land starting at ½-acre and scaling up to 5 acres, over 4 years
- Access to tools, equipment and irrigation systems
- Access to markets through our marketing arm, ALBA Organics
- Free crop planning and production assistance
- Free business assistance, including business planning and assistance in legal, regulatory and certification compliance.

#### *Community Outreach*

Aside from the core program, ALBA conducts outreach in the regional farming community. ALBA provides information and educational opportunities for over 500 growers in Monterey, Santa Cruz and San Benito counties, holding quarterly workshops on business and technical topics. ALBA also distributes a quarterly bilingual newsletter, *Farming for the Future/ Cultivando Nuestro Futuro*, promoting workshops and providing brief news and information about business, marketing, risk management, regulations and other topics of interest to growers.

With support from the David and Lucile Packard Foundation, ALBA operates the Environmental Education program

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which invites local schoolchildren to the farm for a day to learn about organic farming and responsible stewardship of the land. The California Department of Food and Agriculture supports ALBA in working with local farmers' markets to provide subsidies to low-income consumers for the purchase of fresh organic produce.

### *Financing the program*

Much of ALBA's financial support comes from the United States Department of Agriculture. The USDA's [Beginning Farmer and Rancher Development Program](#) and the Disadvantaged Farmer and Rancher Program from USDA's Office of Advocacy and Outreach have provided significant support in recent years. In addition, ALBA receives support from several local foundation and corporate donors to fund its training and support activities.

In the past, ALBA has depended largely on outside support to fund farmer education programs. However, ALBA's recent growth will enable us to self-fund an increasing portion of operations costs. For instance, the emergence of ALBA Organics, established to meet the marketing needs of our small farmers, will generate funds to re-invest in expansion and improvement of ALBA's core programs. Also, as the number of tenant farmers increases, we will generate more revenue from land and equipment use to match donor funds.



### *Factors Contributing to Farmer Success*

Many factors contribute to success, some of which are entirely outside their control such as weather, market volatility and resource availability. Still, a farmer's experience and skills, willingness to learn and adapt, and ultimately, his/her commitment to farming, rank among the top factors in determining success. Farming is an incredibly difficult pursuit, requiring not only long hours of hard labor, but a keen business sense and the patience to endure a myriad of legal and regulatory requirements.

According to the opinions of ALBA participants in a 2011 survey, there are a number of key factors contributing to the success of beginning organic farmers, aside from farming knowledge. The following is a list of these factors along with a brief description of how ALBA addresses the issue.

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*Family support.* An individual has difficulty farming anything more than 1 acre of vegetables alone and dependable hourly labor is in short supply. Our most successful farmers have a spouse, working-age children, or other family helping them on their plot. Those who do not speak English rely on their children to communicate for them or even to run the business side of the enterprise

*Alternative income.* Acreage farmed in the first two to three years at ALBA is too little to generate sufficient income to support a family. Most farmers maintain a part-time or full-time job or their spouse has a job to supplement income. In addition to looking for indications that applicants are committed to farming, ALBA screens for these first two criteria when selecting program participants

*Hands-on learning opportunities.* ALBA farmers come to learn. Knowledge about organic cultivation, high-value inputs, soil treatment, crop planning and rotation, post-harvest handling and so on, are essential to success and are best learned in the field. No matter how much time ALBA devotes to this, there is always demand for more

*Access to markets.* Small farmers have a difficult time finding cost-

effective marketing outlets for their produce. Wholesale channels want high volume at a low price. Farmers markets have better pricing but low/inconsistent volumes along with time and transaction costs. Retail and restaurants may bring higher prices but also higher food safety requirements and tend to be higher-maintenance relationships. ALBA has learned that farmers have enough to worry about in learning the production and compliance side of organic farming. For that reason, we developed an internal produce marketing operation – ALBA Organics – so that beginning farmers could focus on production

*Access to land.* Agricultural land in the Salinas Valley is highly coveted and in scarce supply. Landowners typically do not want to lease small parcels, particularly to those who don't have a strong financial track record. Finding good organic land is that much more difficult. ALBA is stepping up its efforts to network with local land owners and non-profit organizations to identify available organic land to facilitate the transition of incubator graduates

*Access to finance.* Agriculture is a capital intensive business even at a small scale. Needs for working capital, equipment and land require

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funds typically exceeding a farmer's savings. ALBA's long term incubator program allows participants to build up their assets, particularly in the latter years when they are farming on more land. We also have a person on staff dedicated to educating farmers on accessing finance and assisting them with loan applications. Next year we intend to explore partnerships with banks and micro-finance programs to invite them to participate in the PEPA course, present their services and hold individual consultations with farmers to expand their services to this underserved market segment.

#### *Lessons Learned in Incubator Management*

Just as farmers face an uphill climb to establish a thriving business, incubator programs face no small challenge in transforming low income farm workers into successful businesspeople. Doing so requires significant time, resources and commitment to an intensive learning process by both farmer and program. ALBA has made no shortage of missteps in developing the program. We remain receptive to criticisms and new ideas which lead to constant refinements to program content to better serve the goal of advancing participants' success. A number of factors contribute to the strength of our program, outlined below:

*Facilities and financial support:* Only so much can be learned in a classroom. In running a farmer education program, the learning process is greatly enhanced by being able to use one's own (leased) land as the principal learning arena. Having 150 acres of arable organic land, which participants can farm over several years at subsidized rates addresses two of the main constraints beginning farmers face: access to land and finance. ALBA's main farm was generously donated by a family to use for educational purposes, while the second site was sold to us at favorable terms and co-financed by an environmental foundation. Training facilities and ongoing operations are supported by the USDA and various private foundations and corporations. This generous support from numerous local and federal donors is the foundation of our program

*Selection process:* Greater awareness of local, organic farming has created new opportunities and interest for aspiring small farmers. However, only the minority are willing and able to endure the risk and years of hard work essential for success. At the application stage, ALBA screens potential participants for their demonstrated commitment

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to farming. Each participant is considered a long-term investment. Our desired investment return is the ultimate success of a participants' new business; thus, we aim to choose those participants who are willing to give farming a determined effort

*Curriculum:* The first year at ALBA is in the PEPA course, learning the basics of organic farming in the classroom and by observing and gaining field experience. We aim to make the curriculum focus on key themes reflecting the production and business side of farming. We employ the expertise of ALBA staff, farmers and the local community to present a well-rounded and relevant course that prepares them to establish a farming business. Understanding that participants have busy work and study schedules, we hold one 3-hour session in the evening and a 4-hour session on weekends to accommodate participation

*Incubator support:* Small organic farming businesses are born in the incubator. They are particularly vulnerable in the early years, when knowledge is taking hold, mistakes are common and losses are more likely than gains. To minimize financial repercussions of beginning farmers, ALBA starts farmers on very small plots of land, heavily

subsidizes the lease rate and gives them intensive technical assistance to accelerate the learning process.

Over the years, as they demonstrate progress, land plots are increased, subsidies lowered and assistance is reduced. In the past, ALBA has been flexible about the period of time farmers can stay on ALBA land. However, we are going to limit the period to 4-5 years in the future to make room for more farmers and to avoid participants' reliance on ALBA services

*Facility Management:* ALBA has 30 incubator participants on our 90-acre Salinas farm. Land planning is a yearly ordeal with new farmers coming in to the incubator, existing farmers scaling up and others leaving. Some farmers end up farming on multiple plots around the farm to attain their desired acreage. Sharing access roads, an irrigation system and equipment and tools among 30 individuals is a true management challenge that should not be under estimated. We will never get to the point where life on the farm is perfectly harmonious, but we've found that clear rules, developed in coordination with the farmers, which are consistently enforced is

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the best way to minimize disorder. We also maintain an open door policy so that farmers can speak to management on a moment's notice regarding their grievances or concerns. In the end, 'respect of the fellow farmer' is the overriding principle behind how we operate

*Marketing:* As mentioned above, our ability to market produce has been key to helping ALBA farmers get started. Learning the ins and outs of organic farming and associated compliance issues is difficult enough without having to be concerned about how to sell their perishable product. The emergence of ALBA Organics has enabled our beginning farmers to focus on production and other aspects of their business. While most beginning farmers opt to market through ALBA, they are not required to do so. ALBA provides marketing training and assistance for farmers interested in alternative marketing strategies, such as farmers' markets

*Post-graduate assistance:* One area in which ALBA has not focused much attention is in ongoing assistance to graduated farmers. Helping them find land, plan expansion, obtain financing and provide ongoing production

assistance are definite needs as farmers' businesses mature and grow. These farmers are not only our legacy but a huge asset for those who follow. In the future, we will explore ways to further engage our alumni to enable their ongoing success and make sure that lessons learned are passed on to their successors.

Ten years on ALBA is still a young organization. This year we are graduating farmers who have been with us nearly since our founding. In coming years the number of ALBA graduates will grow rapidly along with the economic impact that we are helping create. The growth of ALBA Organics already reflects farmers' progress. Just five years ago it sold \$500 thousand in produce. This year we are approaching \$5 million in sales. With the growth in organic produce sales skyrocketing, particularly in the lucrative markets of the San Francisco Bay Area, we feel that the future is bright for ALBA farmers. We'll continue to hone our project to meet their needs and the demands of the market and look forward to sharing our experiences with peer organizations around the country. For more information about ALBA or any of its programs, contact (831) 758-1469 or visit [www.albafarmers.org](http://www.albafarmers.org).



## One Organization's Journey Towards a Farmer Incubator Program

Michael Burton  
Sustain Floyd

[SustainFloyd](#) seeks to promote regional agriculture in many forms. Like most Social Benefit Organizations we work to create markets, but when we dug a bit deeper, we realized the regional supply was insufficient for a real food system. Like many rural areas, most of our farms grow cattle to ship out for finishing, and hay and forage to feed them - with a bit left over for sale. This keeps folks farming (for now) and keeps the land open but does not provide a local food system.

How do we diversify and start growing food for ourselves again as a region, while maintaining the local cow/calf system? A model farm and land-based learning center seemed one way to address this issue. Others across the country think the same way and the phrase "farmer incubator" is increasingly heard at conferences, webinars and regional meetings.

Being an enthusiastic organization, we got a bit ahead of ourselves at first. We were offered a farm on a very reasonable lease, we knew the property and the opportunity came just as we realized our need, so we agreed immediately. But this was the cart before the horse, and we soon discovered how large an undertaking an incubator farm is. It's better to create a vision and a template first and then find a farm.

We had the good sense to ask [Blue Moon](#) for support and they wisely advised us to slow down a bit and develop a strategy for the viability and sustainability of the farm. They helped us develop the project vision and agreed to fund a detailed business plan for the farm and school. This was a major development for SustainFloyd on its journey.

Others also support our vision. A small grant from the [Central Appalachian Network](#) gave us a great jump start, allowing us to purchase much needed hand tools, irrigation and other items as well as some rent coverage during this start-up phase. A USDA [Farmers Market Promotion Program](#) award subsidized management and labor costs, hiring of a whole farm planner, and the purchase a walk-in cooler and other incidental items. Again, these funds make the transition to viability a bit less rocky.

SustainFloyd is also a sub-awardee of the [Virginia Beginning Farmer and Rancher Coalition Project](#) which funds a curriculum coordinator for the farm school and provides a five-module curriculum on sustainable agriculture that we will use to form our own curriculum. Being part of the coalition provides statewide networking opportunities. It is inspiring to be part

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of a bigger movement. SustainFloyd hired [Earthwise](#) of eastern North Carolina with its mix of business planning and on-farm experience. Tony Kleese, one of the Earthwise principals along with Mike Ortosky, has 15 years of experience educating new farmers and established the first community college level sustainable agriculture curriculum in the country in the late '90s. "Any farm education program—to be successful – must take a systems approach and address the access to land issue," says Tony. "Education tends to focus too much on production and not enough on farm management. An incubator must be tied to the broader market system and land access."

Heeding this advice, SustainFloyd seeks to create whole farm entrepreneurs, not just producers. Developing a business plan will be the capstone of any student's course of study. The land issue is a tricky one but one avenue is placing farmers on land where the owners want to see the land produce but are not able to do it themselves.

Sound farm management is another important issue. SustainFloyd sees this need in Southeastern Virginia and hopes to attract experienced farmers with access to family land to put more acreage into food production for the burgeoning local markets.

Recently we have been wrangling with the problem of student lodging. Our model farm is designed to be residential and we are looking for creative options to make this happen. It's a big piece of infrastructure and a big expense that government funders do not typically support.

Today we are moving forward with the \$120,000 or so we have cobbled together, with a business plan in hand, and with a solid coalition of support. We will hold an eight week course next spring as a kick-off and precursor to the residential component that we hope to have in place in 2014. The need is there, the support needed and groups like SustainFloyd ready to implement.

The [Virginia Beginning Farmer & Rancher Coalition Project](#) works at local, regional, and state levels to meet the needs of Virginia's aspiring and establishing farmers. With the Coalition at the heart of the project, innovative farm businesses and organizations are coming together across the Commonwealth to support beginning farmers through whole farm planning programs, classroom, online, and hands-on learning opportunities. The project uniquely includes a mentoring component through which beginning farmers can gain access to the knowledge of Virginia's experienced farmers.

Awarded a grant from the [Beginning Farmer and Rancher Development Program](#) in 2010, the Coalition is made up of a large, growing and diverse range of partners. In the above article, one partner, Sustain Floyd, discusses its experiences in developing an incubator project. Other partners include [Fauquier, Madison and Rappahannock county Extension](#) working with Farm Coordinator Jim Hilleary to offer BFR classes on the [Fauquier Education Farm](#).



## Farmers Growing Farmers: Reaching Beyond the Classroom to Help Beginning Farmers



*Amy Bacigalup, Director , Parker Forsell, Organizer  
Farm Beginnings Project ©*

The [Land Stewardship Project](http://www.landstewardshipproject.org) (LSP) (www.landstewardshipproject.org) believes that more farmers on the land raising crops and livestock with good stewardship practices will transform our food and farming system. With more farmers on the land, there is increased diversity of crops and livestock for revitalizing local food systems and more farmers with a direct connection to land participating in local democracy.

To achieve more farmers on the land, LSP brings together people from the current farming community, new immigrants, people of color and people from urban centers to form a community of farmers through [Farm Beginnings](http://www.farmbeginnings.org)® (www.farmbeginnings.org).

This community of farmers has been the inspiration and the backbone for the Land Stewardship Project’s Farm Beginnings since it started 16 years ago. Farm Beginnings is farmer-led, community-based and focused on sustainable agriculture. Since it was launched in Minnesota in 1998, Farm Beginnings has provided opportunities for 622 beginning and transitioning farmers to learn firsthand from

experienced farmers and community leaders through a 10-month strategic farm planning course. The impact of this has been an increase in the number and diversity of farmers on the land (see chart below.)

### Survey\* of Farm Beginnings Graduates

- 74% are actively farming
- 79% are managing more than 5 acres
- 29% produce vegetables
- 15% produce beef
- 11% produce dairy
- 11% produce row crops
- 5% produce sheep
- 5% produce hogs
- 3% produce fruit
- 97% follow sustainable practices
- 82% have increased their use of sustainable practices since taking FB
- 60% market a majority of their product locally
- 65% plan to expand their operations in 2011

(\*Based on a 2011 survey of 300 Farm Beginnings graduates; response rate >50%)

Over the years of offering Farm Beginnings, LSP has witnessed changes in the experience level of many Farm Beginnings students. The trend has

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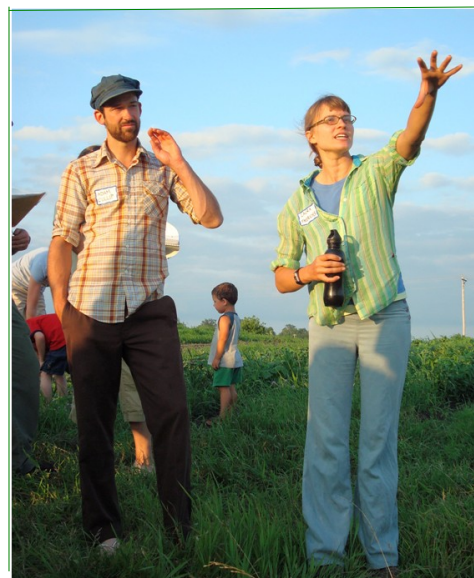
been toward people with less experience in agriculture. Over the past two years, a survey of incoming students has shown that 40% lack farming experience. The lack of experience presents challenges during the classroom portion of Farm Beginnings as well as once students are done with class and try to begin to fill gaps identified during course work. Students rely on our budding farmer network of growers, relationships forged during class, and other organizations like [Midwest Organic and Sustainable Education Services](#) (MOSES) and the [Farm Business Management](#) (MNSCU's FBM) Program to help them with the difficult task of moving from farm plan to farm business.

With the support of USDA/NIFA's [Beginning Farmer and Rancher Development Program](#) (BFRDP), LSP's Farm Beginnings program has expanded and deepened the support and training for beginning farmers in Minnesota, Iowa and Wisconsin (award #2010-49400-21818.) Getting started in farming requires more than one class and in fact it takes multiple years of training and support to reach success. Support from NIFA's BFRDP program has afforded LSP staff and leaders the time and the resources to significantly expand and improve tools for making a difference for Farm Beginnings students and graduates. Specifically, we

have increased the number of mentor farmers in the LSP Farmer Network, fine-tuned self-assessment tools for farming skills and knowledge, developed a learning plan tool to guide on-going education beyond the classroom and developed new workshops focused on advanced topics for beginning farmers in the first three to five years of their start-up. But, just like in the beginning, it would not have been possible without a dedicated group of LSP farmer members leading the way.

### **Beginning Farmers are Leading the Way**

As we mentioned, Farm Beginnings is a farmer-led, community-based model that relies on the leadership of farmers to provide training and support for other farmers. With the support of the



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BFRDP, we have expanded the leadership roles of beginning farmers. This work is led by a steering committee of nine farmers that are helping us assess these tools and offer advice toward new strategies to aid beginning farmers in their farm start-ups. The committee meets twice each winter and by phone as needed.

In addition to these leaders, LSP continues to work with our farmer-members to help us design and guide the strategies for training farmers and for gaining more peer-to-peer interaction through LSP's Farm Network. In this way, new farmers are laying a path for the success of other new farmers toward the goal of more farmers on the land.

### **Farm Beginnings in Other Regions**

The seeds of this change are now firmly planted in other regions of the country through the Farm Beginnings Collaborative. The Collaborative is a

national alliance of independent regional groups of farmers and farmer-training support organizations working together to promote Farm Beginnings.

As a leader within the Farm Beginnings Collaborative, LSP works with 12 organizations hosting 10 Farm Beginnings programs that provide services to 14 states. One area of the Collaborative's work is focused on strategies to aid our Farm Beginnings students in the years of start-up following the class. Each of the Farm Beginnings programs is building a community of farmers who are committed to the success of beginning farmers. In this way, as a national movement Farm Beginnings is laying the path for transforming our food and farming system one new farmer at a time.



# The Farmer Veteran Coalition

*Michael O’Gorman  
Executive Director*



When I began farming in 1970 there were two million farmers in the U.S. feeding 200 million people. Now there are 960,000 of us feeding 310 million people. For more than a century our numbers have shrunk and our average age has gone up.

Now much is changing.

Agriculture is at an historic crossroads of unprecedented opportunities and challenges. We need farmers to feed our people, to protect our land, to rebuild our economy, to bring back our rural communities, to make us healthy again, and to make our nation secure.

It is for these reasons that we started the [Farmer Veteran Coalition](#) (FVC).

We saw in the men and women returning from our all voluntary military service the type of character and personality that would serve one well over a life time of farming and the challenges that almost inevitably come with it. As someone who spent his career on the production side of agriculture, I found a strong affinity with men and women who were not afraid of the physicality of our industry.

FVC is not a charity; we want veterans to succeed as farmers. Our focus is to help each individual veteran take their

passion for agriculture and turn it into a something that is not only meaningful but also financially sustainable. This could be full-time, part-time or supplemental to disability related income.

FVC does not dictate to the veterans entering our program how they should farm. Even though our project was started by farmers with long history in organic farming, we recognize the tiny sliver of our population that farms and the tiny sliver that serves in the military. We honor and support the farming path that each veteran chooses and want an organization to support each of them. At the same time, we recognize the attraction that growing healthy food, taking good care of animals and becoming good stewards of the land is for a great number of the veterans that seek our help, and do everything we can to match veterans with mentors, markets, and support for their individual interest.

We believe that all the major problems that many Americans see in our food production today – lack of bio-diversity, consolidation of farm ownership, overuse of chemical pesticides, reliance

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on immigrant labor and shipping of food that is best eaten fresh across the country and the globe – all boil down to one single issue, the need for more human capital on our farms.

We believe this investment in human capital in agriculture is the singular most important long range investment our nation can make in keeping us competitive and secure in a fast changing world, and in creating and caring for the type of country we all want us to be. We also see it creating unprecedented opportunities for individuals that are seeking economic viability, a purpose in life and a comfortable lifestyle for themselves and their family.

Support for beginning farmers has never been greater. The greatest hurdle to overcome for most becoming farmers – financing – now has many new options. There is opportunity to receive financing from the public – through Community Supported Agriculture – support for beginning and small farmers through the national Farm Credit network, lending from many buyers and increased options from the USDA. We are particularly thrilled to see the new USDA micro-loan program, which, though open to all beginning farmers, was adopted with the special needs of returning veterans in mind.

Support for healthier eating, more diversity in our diet and food that travels fewer miles from the field to the

plate have created economics that now make farming on smaller acreage a more viable option.

My own world, vegetable production, is in incredible flux right now. It now costs close to \$10,000 to ship a load of produce from California or Arizona to the East Coast, something that was the value of an average load of produce not too many years ago. That will not eliminate the need for growing large quantities of fresh produce in these regions, but it can add between \$5 and \$10 per box to the cost of this produce. When one combines that with the premium many consumers are now willing to pay for locally grown food and our need to eat more fresh fruit and vegetables it has created the economic perfect storm for returning high value crops to communities that have long abandoned them.

At the same time new technologies combined with age old natural practices, are making the possibility of high monetary return on small acreage a new option. Protected agriculture, as it is called in much of the world, allows a farmer to extend their season, speed up the growing cycle, conserve water, and decrease pests. When systems are in place to train plants for vertical growth an entire third dimension is added to the traditional calculation of growing space. These systems range from the high tech/high investment of

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hydroponics, the less costly but still relatively expensive investment in greenhouses with heating and cooling, to the more affordable extension of seasons through hoop house construction.

On the other end of the spectrum is support for animal production that requires more land per animal than some of the current methods, but reduces costs and adds price when selling to customers demanding these types of growing methods. This market support is making poultry production, for both meat and eggs, and other small livestock, doable on property that would not have been considered prime farmland at one time. Being close to a market is of major value now.

Anyone that tells you that you they have a way you can get rich fast from farming has probably not done it. It takes more effort, physical and mental, more perseverance and more sacrifice than almost any type of work. Yet its rewards go far beyond monetary; farmers find a power from working outside, with nature, creating life and doing something society vitally needs.

The Farmer Veteran Coalition believes that veterans can make great farmers. They are not afraid of something difficult. They stand up when they are knocked down. They understand the need to be acutely aware of everything around them. And most of all, they are

driven by doing what is right and what is needed by society and their country.

Farming, like the military, is one of our last great meritocracies; with actions, not words, you are judged. We at FVC believe deeply in the opportunity that American agriculture has to offer.

Some of us were organic farmers, long before it was popular. We succeeded, not by criticizing how others farmed, but by farming well ourselves. That precious ability, to not only produce good food, but to influence by doing, is there for all of us.

The Farmer Veteran Coalition believes strongly that self-employment is not the only meaningful way to become part of our agricultural community. Both small farms and large farms have great opportunities for well-paying employment in jobs as diverse as the types of crops that they grow. My own profession, farm management, gave all the satisfaction of farming, and on a scale that I never could have achieved on my own. I got to focus on the part of the job I loved - being out in the field growing the crop - and let other people handle the sales and business. And for every job like mine there were many more, equally skilled and rewarding, that often never stepped foot in a field.

Even if your ultimate goal is to start a farm of your own, we highly recommend employment on other farms

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as a good way to get training and experience. If you are going to pursue apprenticeship or training programs, we recommend getting it from farms that have the highest level of professionalism possible.

One program we are really fond of is run by the Nebraska College of Technical Agriculture. When you finish a two year degree in animal science or crop production you can take up work on partnering farms. Over your first years of work you are allowed to build up equity in your own animal stock, mostly cattle. After a number of years the value of your own growing herd can be used to secure the purchase of your own farm. With patience and hard work, farming, on any scale, is possible.

FVC will introduce veterans to projects in your state that help beginning farmers find land. Just like the program in Nebraska, there is always the option of renting land and building equity in livestock, farm equipment and sales before making the lifelong commitment to purchasing one piece of land. All the while you are gaining knowledge as well, which may lead to a much better decision to match a piece of property to the type of farming you chose to pursue.

The Farmer Veteran Coalition, and our vast network of partners, has many ways to help a veteran interested in agriculture. Our initial intake process

will allow us to determine what your goals are and how best we can help. We not only work with veterans in virtually every state but now have partners in most states as well. We will do our best to match you with people willing to help and mentor in the type of farming that interests you and in the area of the country you want to live.

Many veterans come out of the military with visible and invisible wounds. Our staff, made up mostly of young veterans like you, understands and sympathizes with these challenges. FVC is uniquely qualified to help a disabled veteran find the type of support necessary to help veterans overcome obstacles to a successful farming career. We partner with [AgrAbility](#), a USDA-NIFA funded project with staff in more than half the states around the country. AgrAbility, and many of its partners, like Goodwill Industries International, are committed to work with us to help veterans with disabilities achieve their dream of farming.

Our Farmer Veteran Fellowship Fund gives small grants to a limited number of veterans -most, but not all, combat disabled. These grants need to be part of a business plan and go towards the purchase of a particular investment that could help leverage the launching of business. Some have used it for used

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tractors, others for livestock, and others for greenhouses or hoop houses.

We are working on developing an even more significant program which we think can be of help to many veterans who have familiarity with farming and its tasks but are challenged in putting together a plan on how to launch their farming business. We hope to match as many veterans as we can with business planner/mentors that can help guide an aspiring farmer through turning a vision and dream of a farm into something on paper that they can bring to a lender.

FVC is acutely aware how small the number is of Americans that serve in today's all volunteer military. It is an equally small number that grow our food. Both communities deal with geographic and psychological isolation. One of the attractions of farming, being outside and working often alone, can also be problematic. We work to put veteran farmers in touch with each other, plan activities that bring you together, and are developing a national

community of veteran farmers that will support you through all your challenges and be there to applaud your successes.

Whatever your path into agriculture we strongly believe that your knowledge and training - not money, land or markets - will be your greatest asset. In a world that will see 9 to 10 billion people in the lifespan of your career, farmers will never be unemployed, can never be outsourced and their value and compensation can only go up. Marketing may help launch your farm, but it is the skill and attention put into production that will sustain it.

One cannot become a farmer overnight, no more than one can become a doctor. But unlike the medical field there are many more paths to enter into agriculture. The Farmer Veteran Coalition was started with one thing in mind - to help veterans like yourself find the path that works for you and help you, for several years if necessary, down that path towards a viable and rewarding career.



# Resources



[USDA, NIFA's Beginning Farmer and Rancher Competitive Grants Program](#)

[Prairie Crossing Farm Business Development Center](#)

[Building Communities with Farms](#)

[Center for Rural Affairs: Land Link Services](#)

[New England Farmland Finder](#)

[International Farm Transition Network](#)

[Seeking Farmers-Seeking Land Clearinghouse](#)

[Beginning Farmer Center at Iowa State University](#)

[Ag Alternatives, Penn State Extension](#)

[Agricultural Marketing](#)

[Cornell Small Farms Program](#)

[Northeast Beginning Farmers Project](#)

[National Young Farmers Coalition](#)

[Practical Farmers of Iowa](#)

[Choices Magazine](#)

[Sustainable Agricultural Land Tenure Initiative](#)

[National Sustainable Agriculture Information Center](#)

[National Agricultural Law Center Reading Rooms](#)

[Center for law at Iowa State University](#)

[Drake Forum on America's New Farmers - 2012](#)

[Small Farms and Alternative Enterprises at Florida A&M University](#)



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