Good afternoon ... and thanks for joining us ... I'm Judy Simpson. This week we've been taking a look back at some of our programs of the past year. 2011 was a year in which the number of Vermont dairy farms dropped below 1-thousand.

For our remaining farm businesses it’s more critical than ever to have a farm transition plan. That’s in part because more dairy farms are multi-generational, and absent a farm transition plan, the next generation is likely to face economic uncertainty ... or consider the worst-case scenario: what happens to the farm business when a family member passes away? As we look back at 2011, we re-visit a Vermont farm family that planned for the future, only to find that the future was now. Here’s Across the Fence’s Keith Silva:

Farms are a business ... and at the North Williston Cattle Company it says so right in the farm’s name.

Onan Whitcomb/ North Williston Cattle Company: “It’s a corporation. The shares are owned by myself, my brother, and my son right now. Before that it was my father, my brother, myself. And we’re currently milking about 300 cows, have about the same number of young stock and farm about 750 acres.”

Lorenzo Whitcomb/ Williston Cattle Company: “We all enjoy working with one another. Onan and I have are distinct things we do each day and it is kind of separate, but we do spend some time together every day, but we try to cross-train ourselves so if Onan’s gone away on vacation I can kind of cover for him, but we’re not in each other’s hair. Rarely, are we doing the same job at the same time.

The Whitcombs are a six generation farm family. Ed and Polly Whitcomb raised their family here and when it came time for the ownership of the farm to
be transferred from one generation to the next ... the family made sure that the mutual respect that they have one for one another served as a guide in the development of their business agreement.

Lorenzo: “It helped that my parents wanted to retire. My father enjoyed farming, but he also liked traveling around in his motor-home too and he started taking three month-long vacations and that was kind of a way of getting Onan and I into the management and it was kind of how we got brought into it.

Onan: “Getting along with the people you’re going to work with that’s key that has to be. Communicating with those people and respecting those people especially their opinions even if they’re different than yours you need to be able to respect and listen to them. No matter how right or wrong they are.”

The Whitcombs wanted their wives to have a direct say in the preparation of their corporation agreement. But, for various reasons, the final business agreement did not include Ed’s wife Polly, or Onan and Lorenzo’s wives as farm owners.

Mary Whitcomb/Onan’s wife: “We all went into it with an equal voice and what we wanted. And one of the things that I wanted and I think my father-in-law was very happy with is that I felt that the wives shouldn’t be a part of the business financially. What would happen if Onan died? I’d be thirty-two years old and I’d be here in a business arrangement with three kids and I thought I don’t want to be locked into that.”

Bob Parsons: “We all know that something can happen to somebody on the farm, but it’s not going to happen on our farm. So we don’t talk about it. Bob Parsons is the University of Vermont Extension Agricultural economist.

Parsons: “On a dairy farm whenever there is the death of somebody that isn’t the emotional time you want to be sitting down to discuss what are we going to do next. By talking about these things beforehand and thinking about what would we do in case of a death. What do we do in case of disability and particularly something that’s getting to be more and more worrisome amongst farms with a lot of high real estate values what would you do in case of a divorce? So there are legal provisions that should be discussed. Actions that can be put in the business agreement so that the business can keep right on clicking.

A major part of the Whitcomb’s corporation agreement defined what would happen in case of possible what-ifs and worst-case scenarios.

Mary: “We worked through every possible scenario, that one of us wanted to get out, one of us was killed, one of us was maimed, it sounds morbid but it’s so much easier to do when you’re all sitting around doing it on paper and saying what if rather than if you have to do it after the fact.”

Onan: “if the worst thing happened it would still go on.”

For the Whitcomb family, their business plan was put to the ultimate test.
Onan: “And my father was killed in a farm accident so the worst did happen and it did work so we feel that, no one wants to do the acid test but we did.”

Mary: “I think the key thing was we could go to all the employees and say you’re going to get a paycheck on Friday, the business is fine you don’t have to worry about that and we could put all our energy in what has happened to him, you know, and that just made it so much easier I don’t think we could have figured out the business part we were too emotional invested, you know, in his accident.

Because the farm’s agreement defined what would happen to farm ownership in the case of death … the Whitcombs knew how ownership would be transferred. One key to a successful business plan is the flexibility to adjust to changing circumstances including bringing in new business partners.

Ben Whitcomb is the sixth generation to work on the farm and the first new shareholder in the business since his grandfather died. His father and his uncle serve as role models for him as he learns the importance of communication and planning when it comes to running a farm business.

Ben Whitcomb/Williston Cattle Company: “My father and uncle even though they’re owners they probably work the hardest of anybody here. They probably put in the most hours. So, I think a business always runs better when the owner is there physically running it and keeping an eye on things. I think that’s made it pretty successful. No matter what we do it seems we always sit down and have a bunch of meetings before we make any big decision and kind of go through every scenario what could happen, what might happen so we’re always prepared.

The North Williston Cattle Company is a farm built on respect, communication, and a well thought out agreement. It’s this combination that guides their business in a sometimes unpredictable, but rewarding way of life … six generations and counting. In Williston, I’m Keith Silva with Across the Fence.

[Judy] thank you, Keith.

There are many aspects to a farm transition plan – and it’s likely that each farm family situation is unique. University of Vermont Extension has extensive resources on farm transition plans – and if you need help, Extension experts like agricultural economist Bob Parsons can help. Parsons and others have put together a series of educational videos to help guide a family through the farm transition process. One question to consider is whether to enter a conservation agreement:

((**up full**))

Hello. I’m Bob Parsons, University of Vermont Ag Economist. In this segment of our transferring the Farm Series I will be addressing the advantages,
disadvantages, and steps to follow when considering the use of Conservation Easements in planning farmland transitions to the next generation or owner.

[pic sequence] Farm owners can exchange a Conservation easement or sometimes referred to as development rights, for a payment or tax benefit from a qualified land trust organization or state government. The easement places restrictions on farmland that limit its use to primarily agricultural purposes. The restrictions generally prohibit commercial development and require the land to be kept open. The majority of conservation easements are perpetual although some states use time periods ranging from 30 years to 99 years. Easements can be sold or donated for tax benefits. Easements generally reduce the value of the land.

[FS: grfx] The decision to place a conservation easement on your farm is ultimately an individual or family decision that should be undertaken only after considerable thought and analysis. Let me summarize some advantages and disadvantages of conservation easements. In most cases we will discuss where farmers receive a payment for the conservation easement.

First, if you desire that your land never be developed, a conservation easement is a good option. You receive some payment for giving up something that you didn’t want in the first place. You now know that your land will not be developed.

Second, the sale of a conservation easement can provide some funds for retirement. You can keep your land yet receive a payment for selling a “part” of the farm. But remember, if selling a conservation easement that lasts forever, only one generation can enjoy the retirement benefits.

Third, the sale of a conservation easement can provide funds for the farm business to expand, bring in a family member, or be used to finance the purchase of additional farmland. When conducted as sound business decision, the sale of a conservation easement can be a key to producing more income for the farm, and making the farm economically viable. But if the sale is used only to pay off debt, the farm development rights have not been exchanged for assets that will produce income. And remember, most farm investments have a shorter life than “forever.” In the case where a conservation easement is granted for tax benefits, it’s best to work with an accountant to determine the true value of the donation.

[FS: grfx] First, there is Uncle Sam to collect some of your proceeds for capital gains taxes. And your state may likely want a cut, too. So don’t fail to consider potential tax liability resulting from the sale.
Second, if there is any mortgage on the farm property, the lender has to approve the sale and will likely want a sizable part of the proceeds. Why? You are selling their collateral. The amount desired by the lender will depend on the size of the mortgage but it’s been known in some cases for the lender to require more than half of the easement sale. What does it leave you? In addition, since the easement may reduce the value of the property, the collateral value of your real estate will be less if you need to borrow in the future.

Third, you are giving up the potential development value of your farm for 30 years, 99 years or most likely forever. Do you want to give up this option? Are you prepared to restrict the options of your descendants? A viable farm today may not be in the same situation 30 or 60 years down the road. There are cases where the younger generation wished the older generation had not put a conservation easement on the farm.

Fourth, selling a conservation easement may reduce the flexibility of the farm’s future production. For example, forms of agri-tourism or agri-ertainment may be prohibited without special provisions. No one knows what agriculture will look like in 50 years so restricting flexibility today may make the farm less viable tomorrow.

[CAM 2] So what should you consider when thinking about a conservation easement?

[FS; grfx] First, discuss your goals and the options with family members, family advisor, and an Extension Farm Management Specialist. Talk to other farmers in your community who have sold a conservation easement. Discuss the advantages and disadvantages for future farm use and how the sale funds would be used if you went ahead with the sale. If you think the option is viable, obtain the information you need to make an informed decision.

Second, contact the purchaser(s) of easements in your state or locality. Find out if your property is eligible. Then obtain an estimate of the easement purchase amount and the restrictions placed on the property. Each easement is different and negotiable so the initial conditions and sale proceeds vary.

Third, work with mortgage holders to learn what they require. Confer with your accountant to understand the potential tax implications. It’s possible that there will be very little cash left after the mortgage holder and the tax agent take their cut. Proceeding without this information is foolhardy. Confer with an attorney to review the contract and identify where you need revisions or negotiate special conditions.

Fourth, get back to the involved family members. Now you know the sale amount, the taxes, deed restrictions, and what is left over. Under these circumstances, are you willing to move forward? Or decline and put the decision off to some time in future for reconsideration?

[TTF/Cam 1] The biggest thing to remember is that this is a decision that cannot be rescinded. You are making a decision that is in effect for 30 years, 99
years, or likely forever. Do not make the decision lightly. Consider all the options, taxes, restrictions; discuss with your family, advisors, attorney and accountant. This is a major decision that you will not be able to change. With the Transferring the Farm series, I’m University of Vermont Extension Ag Economist Bob Parsons.

(/**on-camera***)

[Judy] Thank you, Bob. For more information on transitioning the Family Farm, you can find UVM Extension’s video series on-line, or you can stop by your county Extension office.

That brings today’s program to a close – and it’s our final program of 2011. All of us here at Across the Fence – from our team of producers at UVM Extension to our production crew here at WCAX – thank you for your continued support.

We of course have new programming planned for 2012. It’s a year in which UVM Extension will celebrate its centennial anniversary – and Across the Fence will mark its 57th year of bringing you stories and programs that affect our farms, homes and communities. From all of us, I’m Judy Simpson. I’ll see you again next time on Across the Fence.