

Carrying On

Challenges and Hopes of Farm
Succession in the Organic Sector



It's 2017 and our nation's first wave of organic farmers has grown long in the tooth.

Over forty years ago, an inspired group of commercial and new-entry farmers bucked the norm and committed to non-toxic, soil-building production practices—and so, organic was born. The first handful to be certified organic included Carl Rosato, founder of Woodleaf Farm in the Sierra foothills. Rosato has been farming fruit, studying soil, and teaching sustainable ag for over 35 years. Still, he's a relative youngster among first-generation certified organic farmers: At age 58, he has just reached the *average* age for farmers in the United States.

Some refer to Rosato and his peers as the “organic pioneers.” Over 200 of them have been CCOF-certified for at least 20 years, and most have worked six days a week for a whole generation now. They're ready to retire.

A full third of all U.S. farmers are now 65 years or older, and fewer new farmers are stepping up each year. What will become of the first wave of organic farms? The continuation of these heritage farms—whose soils have been improved, infrastructure tuned, and biodiversity tended for almost four decades—is especially precious. While the challenges of passing down the first certified organic farms are a microcosm of the nation's greater farm succession challenges, their outlook is a bit rosier: Organic farmers are six years younger, on average, than farmers in general, with significantly more beginning farmers in their ranks.

Organic also provides a boost for succession strategies on conventional farms, as organic transition can itself be a valuable succession tool. It's not uncommon for the younger generation to convert to or add organic practices, improving markets and often revenue for the family business—which in turn can become a key factor in whether a successor will choose to carry on.

First-wave organic farmers were early adopters, with goals reaching beyond the “bottom line.” They have a track record of creative thinking, which today is extending to how to keep the legacy of their land alive.

What can we learn from succession stories among us?

Farm succession is a challenging matter, and we often hear the sad farm succession stories in which family farms end up subdivided or developed, and vibrant agricultural histories are paved over forever. Or worse, irreconcilable differences about the fate of a farm or ranch can end up tearing families apart.

Others bequeath their land to their off-farm kids, who may be dedicated enough to lease out the farm for continued production. But more often than not, inherited farms get cashed in for easy division among heirs, the equity to be used in other ways. A farmer with no heirs will inevitably sell his or her greatest retirement asset—the land.

Luckily, there are many other happier cases for us to explore, like that of the Soghomonian family, where the children of our organic pioneers are carrying on their parents' legacy. Or, like the Sitkins and the Smiths, where a transition to the next generation goes hand in hand with a transition to organic production—a win-win for the future of organic.

We'll also learn from organic pioneers Jeff and Annie Main, who have honed in on an innovative tool to make sure their farm remains affordable for the next generation in response to the prevalence of farmland consolidation in agricultural regions and land development in peri-urban areas.

And once in a while, though rare as a hen's tooth, a farmer finds a non-family successor and is able to pass on the farm, intact, to a farmer of new blood—Rosato has done just that.

What can retiring farmers do?

They say the best time to plant a tree is a generation ago, and the second-best time is now. Rod Carter has worked with hundreds of farm families on business transitions and says the best time to plan for a farm transition is the day the business is started. “I have heard many say they should have started their planning sooner,” he warns, “but I have never heard a single farmer or rancher, from any family, say they started too soon.”

Engaging the right team is also key to succession success. Besides representative family members, a family succession team might be comprised of business and financial advisors, an accountant, an estate attorney, key business mentors, and ideally, a meeting facilitator or mediator.

Because most American farmers and ranchers don't know where to start, a growing number of private and nonprofit services are emerging to help farm families develop farm transfer plans in response to the great need for succession planning support.

California FarmLink connects beginning farmers to agricultural landowners and retiring farmers; operates a loan program for underserved farmers; and assists farmers with tenure, financing, business, and succession planning. Informed

"Each generation on this farm has had something new and exciting that changed. My generation will be marked as the first full generation as organic."

by almost two decades of direct work with transitioning farms, FarmLink partnered with CCOF to develop the Organic Elders and the Next Generation Project—a series of farm succession workshops and targeted follow-up assistance for farm and ranch families. One of three workshops has already taken place, with about 25 farm families receiving one-on-one help developing their succession plans. For more information on future workshops, visit www.californiafarmlink.org/events.

Estate planning attorneys and farm advisors of all sorts concur that the most important ingredient in a smooth farm transition is *communication!* Senior farmers who won't share their plans with all the kids can inadvertently create bad feelings—or a rude surprise, later on. Successors too hasty to "do it my way" can miss out on the valuable wisdom of their elders. It's essential that all stakeholders understand the status of the business, express their own goals for the business and land, and feel listened to.

Success in Succession: Five Stories from the Field



Ryker Smith represents the fifth generation on his family's dairy farm in upstate New York.

Tre-G Farm, LLC, is 600 acres of hay and forage crops, pasture and a 160-cow dairy, and a small U-Pick berry and vegetable operation.

Smith didn't want anything to do with the family dairy when he started school at Cornell University, but while studying soil science he discovered a passion for organic systems and his feelings began to change. Meanwhile, the regional dairy industry had become increasingly cutthroat, and his parents decided to switch to organic production under Organic Valley, who offered to help with the cost of transition. The prospect of

organic production and expanding the farm's U-Pick operation sealed Smith's interest in returning to the family farm. He also recently won a CCOF Foundation Future Organic Farmer Grant, which is helping him fund the education that will inform his career in organic production.

Only a semester away from finishing college, Smith is working closely with his dad and is bringing new tools and ideas into the business. The organic transition has been positive for

Key Steps in Developing a Good Succession Plan

- 1. Both generations:** Communicate vision and goals for the land and business to lay the foundation for a viable plan. Take the time to learn how to have productive meetings, and involve all stakeholders if possible.
- 2. Business owners:** Update the farm business plan. It is crucial for everyone with a stake in the business—even an indirect one—to know where the business stands, how it is changing, and whether it is profitable.
- 3. Senior generation:** Develop a retirement plan. What do the retirees want at this stage of life? For example, how much income is needed to maintain their desired lifestyle? What are long-term care plans, and insurance to address those? Do the retirees wish to stay on the farm indefinitely?
- 4. Both generations:** Address any knowledge gaps with a successor development plan. What courses, on-the-job training, or mentorship does the incoming generation need to begin taking the reins?
- 5. First the senior generation, then both generations:** Create a business ownership transfer plan—even if ownership transfer is not expected to take place soon. The choice of legal business entity (Limited Partnership, LLC, C-Corp, S-Corp, etc.) can facilitate a smooth transition. Buy-sell agreements are key tools for getting everyone on the same page, and to treating stakeholders "fairly." (Read more about buy-sell agreements on Page 33.)
- 6. Both generations:** Adopt a business management transfer plan. This plan lays out a timeline for transfer of key responsibilities. It should be discussed thoroughly, and written down!
- 7. Senior generation:** The estate plan—do it. For so many land-rich, cash-poor senior farmers, estate planning becomes a weighty task. The alternative is to resign the fate of the farm to probate court—and a good deal of the money too. A living will is the minimum, but a good, sound estate plan will make sure assets are properly allocated to align with the goals of the senior generation. It's a tough question to ask, but what if something should happen to the key decisionmaker(s) tomorrow? Is there a clear plan to follow? Estate plans should be drafted, and then, as things necessarily change, revisited regularly.

everyone, he says. Raising dairy cows in confinement gave him the feeling that they were always “on pins and needles.” Now, he says, they seem healthier and more resilient, so the farmers are less stressed too.

“After college, I intend to return full-time to my family farm, finish out the organic transition, and continue farming for another generation. Each generation on this farm has had something new and exciting that changed. My generation will be marked as the first full generation as organic.”

Smith feels his whole family supports him to eventually take over the farm. “But I’m only 22,” he says. “I don’t know all the details yet.” This farm transition is still in its infancy, but it’s looking healthy and strong.



As a tomboy kid, Natalie Soghomonian always liked helping her dad Joe Soghomonian on their vineyards in the San Joaquin Valley.

She’d sleep on the couch so she wouldn’t miss going with him on his early morning rounds. Now *she* manages the farm, raising a family of her own.

In the 1940s Natalie Soghomonian’s Armenian-born grandparents homesteaded 40 acres in Fresno, growing grapes like neighboring Armenian families. Joe Soghomonian took over the business young, when his dad passed away. By the time his three daughters were born, he had come to the conclusion that pesticides were dangerous and self-perpetuating, so he decided to stop using them for good. Joe Soghomonian became certified organic in the early 1980s and never looked back.

Natalie Soghomonian took a job tractor driving on the family farm at 19, then took over managing harvest, learned how to keep the books from her mom, and began marketing. She developed her own brand, Three Sisters Organic. Soghomonian Farms grows table grapes, raisins, and wine grapes on 600 contiguous acres. Natalie Soghomonian is especially known for her high-quality raisins, sold both wholesale and direct-to-consumer.

The “principal” farm operator is still Natalie Soghomonian’s dad, but now he helps with oversight while she takes the reins. It can be intensely difficult for a business founder to let go, but Joe Soghomonian has allowed for a gracious transition. “I feel really blessed,” Natalie Soghomonian says.

Natalie Soghomonian is vice president of the newly formed S-Corporation, but she is not yet part owner in the business. Her parents are working on an estate and business transfer plan to ensure that her sisters, who don’t farm, will have an inheritance without having to break up the family ranch.

The business is a real roller coaster, Natalie Soghomonian says, and they’ve weathered many ups and downs. Right now she’s concerned about unparalleled labor costs and crippling price drops in organic grapes due to intense market competition from larger organic farms and, ironically, Turkish raisins. Natalie Soghomonian is grappling with the possibility that the business won’t remain economically viable. “It’s discouraging,” she says. “I don’t see that there’s a future for my kids here.” Even such model successions as the Soghomonians’ can ultimately depend on success factors far beyond any farmer’s control.



Along the Calaveras River east of Stockton lies the 900-acre, fifth-generation Old Dog Ranch.

Roger Sitkin’s grandma thought once about selling the ranch, but she saw his interest in farming and passed it down directly to her grandsons under the condition that they’d farm it and keep it in the family. In addition to the majority acreage leased for grazing, Roger Sitkin built up the farm’s kidney bean seed operation and added oats, cucumbers, nuts, and other crops.

His daughter Mollie Sitkin, 32, earned a degree in sustainable business, then saw an opportunity to add value to her dad’s main product. She began making and selling walnut milk, nut butters, and candied nuts for sale at farmers’ markets and online. When the markets demanded it, she easily convinced her dad to convert a 10-acre orchard to organic production. Organic certification has allowed Mollie Sitkin to grow the value-added product business by 50 percent per year since

she founded the brand, and they plan to convert more acres in coming years. Roger Sitkin is clearly proud of his daughter, and enjoys working with her. As for Mollie Sitkin, "it's not lucrative, but I love it," she says.

Roger Sitkin, now 65, has no plans to fully retire any time soon. "I'll still be driving tractor when I'm 90 if I can," he explains. "It's the business end and money worries that I'll be happy to give up." He doesn't want to pressure the next generation. His dad didn't farm, and though Mollie Sitkin is running a great farm-based business, she's not actively involved in the production end. Her cousins visit regularly and her brother shows some interest, so the future is unknown. Although the details are unclear so far, they're all committed to keeping the ranch in the family—just as their great-grandma wished.



Jeff and Annie Main are pioneers of the local and organic food movements.

For almost 40 years they have owned and operated Good Humus Produce—20 acres of vegetables, tree fruits, herbs, and flowers for local markets and a loyal CSA. Co-founders of the Davis Food Co-op and the nationally-recognized Davis Farmers' Market, the Mains have raised three children on the farm and fed tens of thousands of people. They, too, are ready to slow down.

For about a decade the Mains have been asking themselves what the future of Good Humus will look like. "If we stopped farming and had to sell tomorrow," Jeff Main says, "this farm would be over. Immediately." The property value doesn't mesh with farm economics—the aptly-named Good Humus is on some of the most productive farmland in the world, but bona fide farmers can't afford to buy it. By contrast, in peri-urban regions with higher land values, small-scale organic farms make highly desirable country estates, with the real estate market ensuring that they won't be owned by a working farmer again.

Unwilling to see their life's work turn into a fancy estate, Jeff and Annie Main asked their community to help preserve Good Humus for affordable transfer to future generations. Using a

model developed by Massachusetts nonprofit Equity Trust, the Mains created an innovative easement to preserve the "whole farm." Like other agricultural conservation easements, it prohibits subdivision and certain buildings and uses, but the Mains' easement goes further, requiring that any future owner must earn a livelihood from farming and live on the property.

In 2009, the Sacramento Natural Foods Co-op joined with Davis Food Co-op, Twin Pines Cooperative Foundation, California FarmLink, and others to raise money for small-farm preservation projects and to highlight the importance of next-generation farmers in a project called One Farm at a Time. The campaign raised over \$300,000 for the Good Humus easement, guaranteeing the community a long-term source of food and farm livelihoods.

Because future owners will be required to farm, the Mains' three children will not be able to inherit the property *unless they choose to farm it*. This has been sobering for the family. But in another way, it's refreshingly clear to the Main family what Good Humus is supposed to be. Their daughter Allison Main recently returned from New York City to help with the flower business and marketing. She's trying it out, and says, "it feels like coming into the sunshine."

One Farm at a Time is seeking its next farm preservation project. The organization's goal is to help set aside small family farms for affordable entry and continued production, under good stewardship, for generations to come. To learn more, visit www.onefarmatatime.org.



Before Woodleaf Farm was a twinkle in his eye, Carl Rosato grew up in Phoenix and started picking fruit as a teenager.

When a friend of his moved to a commune, Rosato went along. He was soon growing food all over the West Coast, and at age 22 he bought 26 acres in Oroville. His was among the first farms to be certified organic by CCOF.

"I'll still be driving tractor when I'm 90 if I can. It's the business end and money worries that I'll be happy to give up."

Known for its delectable peaches, Woodleaf Farm grows dozens of fruit varieties on only seven acres. Rosato taught himself how to do everything farm-related, from building soil and maintaining equipment, to selecting and marketing the best varieties for the hot foothill climate. To stay at a scale where he could be the primary farm laborer, Rosato gave up on wholesale early and made his business selling at farmers' markets.

Thirty years later at an EcoFarm Conference, Rosato met Helen Atthowe, a legendary no-till farmer from Montana, and they were married soon afterward. They both loved mentoring and teaching about sustainable agriculture, and shared a dream of retiring to a farm where they could grow enough food for their own diets and just a few markets.

When they found their dream retirement property in eastern Oregon, Rosato knew it was time to sell Woodleaf Farm. In fall 2015 he and Atthowe made a farm sale video to help spread the word. Rosato's goal was to get a fair value for the land and the mature turn-key business. He was even willing to finance part of the land sale to find like-minded younger farmers who could afford to buy and keep the farm going.

He quickly received multiple offers. Danny Lazzarini and Andrew Seidman, a young couple with 15 years' farming experience, seemed like just the right fit. They studied their financing options, investigated the business's earning potential, and asked themselves if they'd be capable of taking over such a finely tuned operation. When Rosato assured them that he would commit to a year's mentorship and that his right-hand man Leonardo Montes Soriano would stay on, Lazzarini and Seidman agreed. In early 2016, they formalized the sale of the land, the business, and some equipment.

Nothing was normal about their transaction: Neither party used a realtor or a paid lawyer. Lazzarini and Seidman got help from family members and farmer mentors to evaluate the land purchase contract and the business. Rosato drafted a mentorship agreement based on what he thought his successors might need. They agreed to purchase some of the equipment separately, with Rosato agreeing to defer payments until after their first growing season. The year-long overlap in their transition also allowed Lazzarini and Seidman to continue selling at the farmers' markets that had come to love Woodleaf Farm fruit year after year.

Rosato's willingness to mentor—and Lazzarini and Seidman's desire to learn—have been the defining factors in the success of this transfer. During the first year after the sale, Rosato made good on his mentorship agreement, coming down once or twice a month to help Lazzarini and Seidman and

answering their frequent phone calls. He says they used less of his help than he expected, especially in the area of marketing, which they already had down pat. But Lazzarini and Seidman are very clear that Rosato's mentorship was one of the most essential parts of the deal for them. "It's amazing to know that he's willing to have us bug him to get answers," says Lazzarini.

Even though the one-year mentorship contract has now closed, the incoming farmers are welcome to call Rosato any time. Most recently, it was for step-by-step instructions on how to mix lime sulfur. "Forever they'll get my ears," says Rosato.

The Succession Challenge, in Numbers

Farmers, as a group, keep getting older.

- » A full third (33 percent) of principal farm operators are 65 years or older.
- » The average age of the American farmer is up to 58, from age 50 thirty years ago.
- » Organic farmers are younger overall, age 52 on average.

There are fewer and fewer beginning farmers.

- » In five years, the number of beginning farmers (operating farms less than 10 years) declined more than 20 percent.
- » There's a higher percentage of beginning farmers in the organic sector: 27 percent of majority-organic producers vs. 18 percent beginning farmers overall.

Land is changing hands, but beginning farmers are priced out.

- » Over the next 20 years, about 70 percent of the nation's private ag land will change hands (Farm LASTS Project).
- » Per-acre farm values rose 36 percent in five years (2007-2012).
- » Land access is named as one of the top two issues faced by beginning farmers (National Young Farmers Coalition).

Who are the farmers of the future?

- » The number of minority-operated farms has grown significantly, the most noteworthy growth being a 21 percent increase in Hispanic operators.
- » The number of female principal operators has dropped more quickly than male operators (6 percent drop in women vs. 4 percent drop in men); yet the numbers of female farmers vary dramatically by region.

Data from the USDA National Agricultural Statistics Service 2007-2012 Ag Censuses, unless otherwise noted.

"...the pioneering organic farmers of my generation have a greater responsibility to mentor and pass along knowledge and experience to a new generation of cultivators than we do to continued production."



Lazzarini and Seidman carrying on the Woodleaf Farm farmers' market tradition (photo courtesy of Brie Mazurek/CUESA).

Lazzarini and Seidman are making some changes, too. They plan to extend their growing season with vegetables and row crops to make the most of the months they're spending at the market. They'd like to eventually get youth and their new community more involved.

The youngsters have a whole season under their belts now, which they've weathered well. "Still, the whole thing is completely terrifying," says Lazzarini. "We've seen so many friends go into farming who are not still farming."

Overall, both parties in this transfer felt they had similar goals and philosophies, and there was mutual trust and minimal tension from the get-go. Rosato felt he got a fair price, and Lazzarini and Seidman feel that if all goes well, they'll be able to cover their payments and build long lives there. "We will need a few more good years before we know for sure if we can make it work," says Lazzarini. But so far, so good.

.....

Agriculture is as basic as breathing to modern human existence, yet it seems to come with more than its fair share of trouble and toil. Food prices are low, while the costs of land and labor are at all-time highs. Business startup costs are prohibitive, and financing can be hard to come by. Continuing farm kids often say they want a healthier work-life balance than their parents had, and their parents don't blame them. Older farmers want to slow down while still preserving the work they've put into their land, but those without a willing heir may not have that choice-or anyone to pass their

knowledge on to. New-entry farmers, without the benefit of lifelong on-farm learning, face a steep learning curve.

Add to all of this the traditional farm succession challenges of family communication, inheritance and estate planning, retirement and long-term care needs, and ongoing threats to agricultural land, and it's clearly not an easy row to hoe.

Still, there's another trend among today's young farmers that ought to make the organic elders proud: They are passionate about ecological stewardship. Addressing a Placer County sustainable agriculture audience last fall, Tom Willey said, "I have come to believe that the pioneering organic farmers of my generation have a greater responsibility to mentor and pass along knowledge and experience to a new generation of cultivators than we do to continued production. Our young organic movement has taken some baby steps on the path to evolve agriculture towards a more harmonious relationship with [the] natural systems operating this planet." The next frontier awaits.

These stories have shown us some of the positive ways that both generations are overcoming today's troubles, at least for now. Making sure the farm works for the next generation, as a business *and* a lifestyle, is key. Full Belly Farm partner Paul Muller once shared the following advice: "All of us need to be planting watermelons so our kids will fall in love with farming too." Considering all four of his kids are now involved in the farm, his plan seems to be working. ■

Succession Resources

Building a Future with Farmers: Challenges Faced by Young American Farmers and a National Strategy to Help Them Succeed, published by the National Young Farmers Coalition in 2011 with contributing authors Lindsey Lusher Shute with Avery Anderson, Hannah Bernhardt, Tierney Creech, Severine vT Fleming, Emily Oakley, and Benjamin Shute: www.youngfarmers.org/newsroom/building-a-future-with-farmers-october-2011

California FarmLink offers workshops, technical assistance, and professional referrals to farm and ranch families in the succession planning process on a first-come, first-served basis: www.cafarmlink.org

California Chapter of the American Society of Farm Managers and Rural Appraisers: www.calasfmra.com

"**The Elders of Organic Farming**" by Carl Pogash, published in *The New York Times*, January 24, 2014: www.nytimes.com/2014/01/25/business/the-elders-of-organic-farming.html

The Farm Succession Guidebook was published by California FarmLink as part of a collaboration with the Center for Land-Based Learning and University of California Cooperative Extension: www.cafarmlink.org/succession-planning/farm-succession-guidebook

Farm Land Access, Stewardship, Tenure and Succession (LASTS) Project is a national multi-year project initiated in 2007 to focus research, curriculum development, and/or outreach efforts in farmland access and tenure for farm entrants, farm succession challenges for exiting farm operators, and the impacts of tenure and succession arrangements on land use and the environment: www.uvm.edu/farmlasts

International Farm Transition Network is an umbrella organization "fostering the next generation of farmers" by providing research and resources to individuals, universities, and nonprofits working to address farm transition issues: www.farmtransition.org

The Greying of California Farming: Success and Succession, a California Health Report in Farm Labor by Matt Perry published in 2016: www.cirsinc.org/rural-california-report/entry/the-greying-of-california-farming-success-and-succession

Land Trust Alliance, a national land trust advocacy organization that offers resources on the role easements can play in estate and succession planning: www.landtrustalliance.org

Land for Good, a nonprofit focused on "gaining ground for farmers" in New England, features myriad resources for landowners and farmers dedicated to keeping lands healthy, productive, and accessible: www.landforgood.org

National Young Farmers Coalition "represents, mobilizes, and engages young farmers to ensure their success": www.youngfarmers.org

Passing Down the Farm: The Other Farm Crisis, written by Wayne D. Messick and Donald J. Jonovic in 1996

Rod Carter, Agriculture and Business Professionals, Inc.: rodcarter@abpinconline.com

Ties to the Land, landowner succession planning workshops, curriculum, and DVD prepared by Oregon State University: www.tiestotheland.org

USDA, National Agricultural Statistics Service: www.nass.usda.gov

Woodleaf Farm Soil Management System, by Carl Rosato, Helen Atthowe, and Alex Stone, published by Oregon State University Extension in 2016: <http://articles.extension.org/pages/73428/organic-farm-system-woodleaf-farm>

Buy-sell Agreements Maintain Harmony and Legacy

WRITTEN BY Jim Rein, CPA and Holly Salisbury, CPA

This week we had a meeting with a father and two sons who are co-owners of a farm business. It was one of our favorite types of meetings because the family was taking a proactive step toward protecting their business and the owners by drafting a buy-sell agreement. The buy-sell agreement sets forth a blueprint for what will happen to each person's share of the company if one of several triggering events occurs.

These agreements are important because they provide a plan if any of the following triggering events occur: death, disability, divorce, bankruptcy, desire of owner(s) to withdraw, or desire of owner(s) to buy out another owner(s). If one of these events were to occur, what would happen to the ownership interest in your business?

To put it bluntly, you might not want to be in business with the next person in line if a triggering event occurs without a buy-sell agreement in place. Think about that for a moment. Do you want to work directly with your business partner's spouse or relative?

In the case of our clients, the father wants to treat his two sons equitably, but he also knows that son number one is and will continue to be the main driver of the company moving forward. In this case, we helped them put a buy-sell agreement in place that gives this son first right of refusal on dad's shares in the case of death or disability. The other son can continue his participation in the company as he has to date. The advantage of this type of agreement is clarity for all parties about what will happen should the ownership situation change.

In short, a buy-sell agreement:

- » prevents unwanted third parties from taking possession of any part of the company;
- » enables a smooth transition of ownership;
- » provides a method for buying out a withdrawing or deceased owner;
- » and provides an independent mechanism for the purchase price of a withdrawing or deceased owner without further arbitration.

A buy-sell agreement can simply state that the company reserves the right to purchase back the shares of the withdrawing or deceased owner. Some of our clients review their buy-sell agreement every year because it includes