

Farm Link, PFB Offer Help Transferring Farm

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CAMP HILL (Cumberland Co.) — An educational forum for those with farms who would like to provide an opportunity for the next generation to farm was held last week at the headquarters of the Pennsylvania Farm Bureau, in Camp Hill.

The educational forum, basically a retiring farmer's seminar, was jointly sponsored by the PFB and the Pennsylvania Farm Link Program — a program created and supported by the state General Assembly that is designed as a match-making agency for those attempting to enter farming and those with no heirs or no heirs interested in continuing the family farm.

Although just a little more than a year in operation, the Farm-Link Program marked the first successful link-up of a Westmoreland County farm owner and an entering farmer on the day of the seminar, with the cows being moved that day, said Marion Bowlen, coordinator of the program.

As of the seminar, she reported that she has received 320 inquiries from people desiring to be considered as entering farmers, and 50 from farmers looking to retire.

What Bowlen does to carry out the program is take the information from each entering farmer and put information about them on a computer list. She also obtains information from those with farms willing to participate, though that information is not shared with potential entering farmers, or anyone else.

Through the use of the data base, Bowlen then attempts to match people with similar farming interests, and then supplies those with farms with the names of potential entering farmers.

Those with farms make contact with those on the list and take it from there, with support, as needed, from Farm-Link.

The support structure for the program is deep, and help is provided to take advantage of any initiative programs available, loans, etc.

Also, both sides are counseled on the realities of developing a working relationship between the two sides.

In short, while the goal of the program is to try to offset the attrition of family farms in Pennsylvania, the method is to match people to see if they can develop a mutually agreeable agreement on transferring the farm.

The goal of the program is to

"squeeze more people into agriculture, not less," she said.

About 40 people attended the program with some couples traveling relatively long distances to attend.

Bowlen began the program, introducing herself and explaining that she and her husband own and operate a Lancaster County beef cattle farm that had been her grandparents' farm. Her father, 75, is still farming, she said.

However, to the point of the program, she stated facts which further support oft-repeated trends about the farming sector — the number of farms is declining at a rate of about 1,000 per year; 55 percent of independent family farms have been lost since 1960; about half of those currently farming have to work off the farm to make ends meet; 65 percent of farm families live off of \$40,000 per year, or less; and there is a decrease in new starts in farming.

"The young are difficult to get in to a farm," she said. A big problem, she said, is that without the promise of eventually getting a farm, most young couple are not willing to farm as a livelihood.

Stating more statistics characterizing the current farming situation, she said that the average age of a Pennsylvania farmer is 52.2 years; and that for every farmer under 35 years old, there are 2.2 people aged 65 or more farming.

Bowlen explained the questionnaires that potential entering and retiring farmers are asked to complete.

For the owners of a farm, the information requested is specific in terms of the farm itself, zoning, legal restrictions, machinery, what kind of business enterprise has been conducted, what kind of farming practices have been used (some farmers have spent a lifetime improving farms and risk all that work being destroyed if they allow their property to be dispersed in the settlement of their estate), debt-ratio, and similar types of pertinent information.

The entering farmers are asked questions about their goals, backgrounds and references are required. They should have some experience farming, and currently those who have filled out questionnaires range in experience from none to 10 years, with one person actually have 24 years experience farming and looking for a farm to call home.

It's not a panacea, and it's not going to be all easy, she said in effect, explaining that a successful transfer of the farm depends most-

ly on the personalities of the people involved.

That is why the Farm Link program attempts to sift through all the entering farmer candidates for the farm owners, and allow the farm owners to select and contact the people with whom the farm owners think they might best develop a successful relationship.

She said most of the entering farmers come in with "beginning-farmer equity," meaning little cash assets, but with the strength, health and durability of youth. "Some have been working (off the farm), and have cash," she said. "Most are looking for, and need, an older farmer to serve as a mentor."

To date, most of those interested in participating in the program have been dairy farmers and a few beef operations. While vegetable, fruit and diversified operations or niche farming operations can make up the remainder.

The bottom line for all farmers, those interested in passing on the farm to the next generation or not, is that "Everyone should consider transferring the farm before getting into the situation (where the farm has to be sold)."

The successful arrangement she told the group about, came about after several meetings between the two, with program support and moderation. She said that the retiring farmer in that situation told her that for the first time, in a long time, he's gotten excited about farming again. "Neither is wealthy, but they have agreed to work together."

What is needed, Bowlen said, is honesty and compatibility.

And foresight. "Most people have difficulty foreseeing a time when they will no longer be farming," she said. The time to start preparing for getting out of farming is long before it happens.

The key to success in transferring a farm is to understand that retirement is gradual and that owning the farm is gradual.

It's not really fair to expect someone to buy all the equipment, land and assets of a farm at once, she said. First, it took a lifetime to accrue all those assets, and secondly, the profit margins are tight and few, if any, lender would consider supporting such an all-at-once buyout.

Gary Heim, an attorney who works with PFB in help farm transfers and with their estate planning services, also talked and went over the legal aspects of transfers to non-heirs.

The non-legal aspects for retiring farmers to consider in selecting

an entering farmer include prior business relationships that entering farmer may have had; the amount of trust; references; whether the entering farmer has a developed business plan that makes sense, especially if the retiring farmer is acting as the lender, instead of using a commercial lender (interest rates are still necessary, but perhaps not as high, and there a fewer restrictions necessary, as a bank may require); the amount of professional financial support that may be needed; and the compatibility of the people involved.

Heim said that those with farms who are interested in seeing the next generation continue the farm must be ready to deal with disappointment. He said very few people farm exactly the same, or make exactly the same decisions, and if the farm owner isn't willing to allow the entering farmer to make decisions, the arrangement won't work; however, there is risk to the farm owner if decisions by an entering farmer are never questioned.

It's a balance that can may stressful at times, he said.

Of the legal aspects, farm owners should look at actual inventories and supplies, machinery, livestock, fixtures, real estate, and other tangible properties on the farm and decide how they are to be dealt with.

Each aspect of the existing farm and farm operation should be questioned as to whether it will be needed by the entering farmer, it's value, and whether it will be sold or rented, and possible terms of transfer of tangible properties.

As far as operating arrangements, Heim said that there is no such thing as "the right way." Instead, it is something that must be discussed in detail and with complete realism, and it is something that suit each party.

He discussed a variety of arrangements of roles between the farm owner and the entering farmer, such as landlord/tenant, seller/buyer, and lender/borrower and how these roles change over time, as the next generation gradually takes over the farm.

He also discussed joint operations and the types of partnerships or corporations which may be formed, though these aren't necessarily considered applicable to the nonfamily generational transfers of farms.

A common relationship in dairying is starting off with a dairy/crop division in farm responsibility,

with the younger farmer generally opting to manage the herd and milk cows, while the older generation farmer does field work. Heim also talked about the different splits of the milk check and how that changes as the transfer of ownership occurs over time.

The seller of a farm has to consider liens and the title of the property, the purchase price, financial arrangements between the seller and buyer, taxes, default remedies, environmental aspects such as underground storage tanks and old dumps (every farm has one), etc.

"It has to be a fair arrangement," Heim said, "otherwise, you will create a legal arrangement that will blow apart."

A considerable amount of discussion during the seminar was given to tax-free gifts.

It was explained that currently, every year, each person is entitled to give away \$10,000 tax free.

Also, once a lifetime, every person is entitled to give away \$600,000 tax free.

The two are different. The \$10,000 per year allowance is an annual entitlement. The \$600,000 is per person and considered as an "end-of-life" arrangement.

For example, if a couple decides they would like to give their farm to their children, they have the combined ability (check with a professional advisor for specifics) to give them \$1.2 million tax free.

The \$10,000 per year is separate and does not accumulate over time.

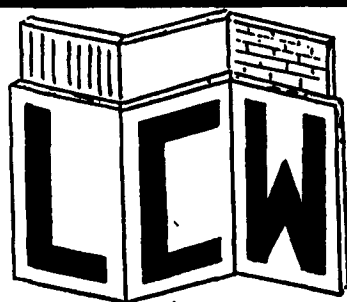
However, if during a given year, more than \$10,000 has been given in gifts, it can still be claimed as a tax-free gift, but any amount over \$10,000 is deducted from the end-of-life \$600,000.

As an example, if \$11,000 were given as a gift, \$10,000 would be the amount for the year, and not affect the \$10,000 allowed for the next year. However, the \$1,000 over the allowable limit would be deducted from the end-of-life amount and the total end of life tax free limit would then be \$599,000.

Gifts were mentioned because they realistically have to be a part of many farm transfer scenarios — to children or non-family.

In other business, Cheryl Cook, with the former Farm Home Administration, talked about beginning farm loan program available through the USDA, but she said that funds are limited. She said she has \$23,000 to allocate to the beginning farmer program because of the way the U.S. Congress

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