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Farms easily slip out of family hands

Straight talk and succession plans often lacking between generations

By Jim Wasserman -- Bee Staff Writer
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As a third-generation farmer on his family's Butte County ground, Greg Sohnrey has already beaten farming's tough odds, and he hopes his 18-year-old son will one day do it as a fourth.

Nearly 90 years after Sohnrey's grandfather moved to California from Kansas and bought a ranch near Chico, the 42-year-old baby boomer is gradually succeeding his father in owning the family operation.

Almond and rice growers, the Sohnreys are navigating one of the touchiest and most difficult transitions in American business: passing on the family farm.

Only 30 percent of the nation's 2.1 million farms will pass to a second generation, and less than 10 percent will reach a third, said Kevin Spafford, a Chico financial planner who recently published a guide to successful farm succession titled "Legacy by Design."

Such low percentages highlight yet another critical test for the $31.8 billion California farm sector, where bragging rights and personal introductions often center around being a third-, fourth-or even fifth-generation farmer. As the state's multigenerational farms feel sustained pressure from low-price global competitors and increasing temptations to sell to suburban home builders, successfully transferring its 76,500 farms toward a new generation is key to the nation's food production and the state's export economy.

Spafford described handing off farmland with its added billions of dollars in equipment and buildings as the "proverbial elephant in the living room. We all see it, and know it's going to make a big mess, but no one mentions it."

With his financial background in insurance and agriculture, Spafford said he has spent years watching Sacramento Valley farmers stumble through financial minefields rife with hurt feelings and sibling rivalry that often lead to a lost family farm.

After conducting personal surveys, he estimated that only 36 percent of farmers have an estate plan, and that just 18 percent either have a succession plan or know how to create one.

Now Spafford has written a 315-page paperback trade book published by Maryland-based Marketplace Books. It provokes the necessary family questions and offers practical checklists and strategies to a new generation of aging farmers.

Nationally, and in California, millions of acres of farmland are due for transition, statistics indicate. The U.S. Department of Agriculture reports that the average U.S. farmer is increasingly older, 55.3 years old today, compared with 50.3 in 1978.

California farmers are even older, reaching an average age of 56.8, according to USDA figures. Sebastopol-based California FarmLink, which helps match aging farmers with potential successors, said nearly three of every 10 California farmers are older than 65 - retirement age for most workers.

"The average age of a Sun-Maid (raisin) grower is in their 60s," said Mas Masumoto, a Fresno-area organic peach and grape grower who has written numerous books, including "Epitaph for a Peach," about the Central Valley's threatened agricultural lifestyle.

Masumoto, a third-generation farmer who took over his father's 80 acres, has seen numerous neighbors sell their farms to others after children left for college and "never came back. The Japanese farm community that I grew up in, there were 30 or 40 farmers around and I'm the only one that took over the family operation," he said.

Taking over a farm is often similar to the situation of 57-year-old Prince Charles waiting to succeed his 79-year-old mother, Queen Elizabeth, to the British throne. Spafford tells of a 91-year-old farmer who still hasn't handed the farm to his 65-year-old son.

Spafford said many farmers fear losing power, control and their identities. California FarmLink's executive director, Steve Schwartz, said many have never developed hobbies they can turn to in retirement.

Nancy Ochs, former agribusiness professor and estate planning specialist at California Polytechnic State University, San Luis Obispo, said many just feel it's their job until they simply can't do it any longer.

"I don't think many farmers like letting go until they die," she said. "If you're a farmer, you're a farmer because you love doing this."

Spafford said such feelings make it difficult for aging heirs to ask about a succession plan. Many fear their farming parents will be insulted. Yet in half of cases where the family farm collapses, he said, it occurs after its founder dies.

At 76, Sohnrey's father, Ivan, is among California's oldest farmers. But he's made succession plans for his son, Greg, that include financial provisions for four daughters who don't farm.

Said Greg Sohnrey, "My grandfather and grandmother had things set up so it was a fairly easy transition. My dad, seeing what has taken place with other farmers, has been very diligent in trying to set things up so I can keep farming and his grandkids can keep farming."

Spafford and others who watch this business phenomenon agree that two things most endanger operations that farmers have spent their lifetimes tending:

* Failure to broach the subject with potential heirs, including relatives who have left their rural roots for city jobs.

* The assumption that an heir will want to take over the farm.

FarmLink's Schwartz tells about a 75-year-old Fresno farmer who walked into a planning session with a cane and announced that he had a plan for his successor.

"He raised his hand and said his plan was to have his 14-year-old grandson take it over. But he hadn't asked his grandson," Schwartz said.

Spafford said he's helped many farmers as a paid facilitator who puts all "the questions on the table. There's no way we're going to get where we aspire to be unless it all comes out."

That means deciding who is the most capable successor and often ruling out those considered most likely to inherit the operation. Spafford said it often surprises families that a member who has long lived in the city is most interested in coming home to run the farm.

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10 TIPS FOR TRANSITIONS

* Identify potential candidates.

* Measure current skill level of each candidate.

* Consider family members, loyal employees, candidates outside your family and business circles, competitors and third parties seeking mergers or diversification opportunities.

* Evaluate the needs of your business.

* Select a management successor well before your transition date.

* Create a personal development plan for your successor.

* Consider using an outside adviser.

* Communicate with family members and loyal employees.

* Do not simply assume a child wants to take over the farm.

* Dividing ownership of the farm equally among multiple heirs is a recipe for disaster.

TOP 3 CAUSES OF FAILURE

* Inadequate estate planning

* Insufficient capitalization

* Failure to prepare next generation properly

Source: "Legacy by Design," Kevin Spafford

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