

Beginning Farm Business Arrangements

AAE 320

Based on work of

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Goal

- To present some “words of wisdom” on how to start working with an older generation to become a farmer
- No right or wrong way, just some general guidelines

Beginning Arrangements

- Farmers have business life cycles and each farmer is different
- Some important issues
- 1) Level of ability and objectives of the established farmer
- 2) Beginning farmer's ability and timing relative to the established farmer's life cycle
- 3) Treatment and expectations of the beginning farmer by the established farmer

Recommended Phases

- 1st Employee-Employer Agreement
 - Testing phase
- 2nd Operating Agreement
 - Formal business arrangements [trusted lawyer]
- Communication important
- Eventually likely have to put things in writing:
way to clarify details, address things you all
may not have thought of, etc. [trusted lawyer]

1st Employee-Employer Agreement

- Compensation
 - Cash
 - Wage and income share
 - Incentives
 - Bonus payments
 - Fringe benefits
 - Commodities (not subject to SE tax)

2nd Operating Agreement

- Beginning operator
 - May furnish some personal property such as livestock or machinery
 - May provide some management as well as labor
- Established operator
 - Provides land
 - Capital/collateral
 - Management
- Early on, may just be oral, but if it grows, arrangement may need to be put into writing, then you need a trusted lawyer

Operating Agreement

- Agreements should cover topics such as:
 - Job responsibilities
 - Contributions of assets
 - Distributions of income
 - Method of settling disputes
 - Dissolution of the agreement
 - Short-term (1-2 years) with clear end date specified by which to renegotiate

Joint Operating Agreement

- Operators are sole proprietors
- Each contributes assets, management & labor
- Income is shared based on inputs
- Each pays expenses of their assets
- Operating expenses are split

Joint Operating Agreement

- Complete inventory should be taken at start
- Sale triggers recognition of gain, so avoid
- Could be transferred by gift
- Could allocate income to pay for inventory
- Could repay at end of agreement

Enterprise Agreement

- Type of Operating Agreement: specify which farm enterprise(s) are managed by whom
 - Young farmer may run the dairy (owns cows, not buildings)
 - Older farmer (owns land) runs grain and forage production and sells to the young farmer, pays young farmer to help during planting and harvest
- Beginning operator's income is all from one enterprise
 - Beginning farmer takes over an enterprise
 - Dairy, crop production, grain marketing, ...
- Labor for other enterprises may be a source of conflict
 - Less time for other activities used to do

Total Farm Operating Agreement

- Other main type of Operating Agreement
- All income and operating expenses are split
- Beginning operator slowly acquires more assets over time via a transition process

Leasing

- Cash leases
- Crop share leases
 - Share inputs and/or outputs
 - Variable rate based on production
- Livestock share leases

Leasing

- One farm enterprise can lease assets from other parts of the farm or other farmers/owners
- Allows beginning farmer use of large capital items when has only a little capital
 - Does not have to be the older generation
- Short or long term
- Land, buildings, machinery, livestock
- Leases for more than a year must be in writing
- 90 day notice required to terminate a year-to-year agricultural lease

Leasing Other Assets

- Leasing a building: from builder or bank
 - An alternative to financing
- Leasing from a neighbor
 - Clarify about cost of maintenance and repairs
- Livestock leasing
 - From leasing company
 - From retiring farmer
 - Advantages for beginning farmer and retiring farmer
 - Clarify maintenance and care expectations

Summary

- Provided some “words of wisdom” on how to start working with an older generation to become a farmer
- No right or wrong way to do it, each family has to find a way that works for it
 - Communication is key
 - Remain flexible & renegotiate as people age
 - Not all families can work together