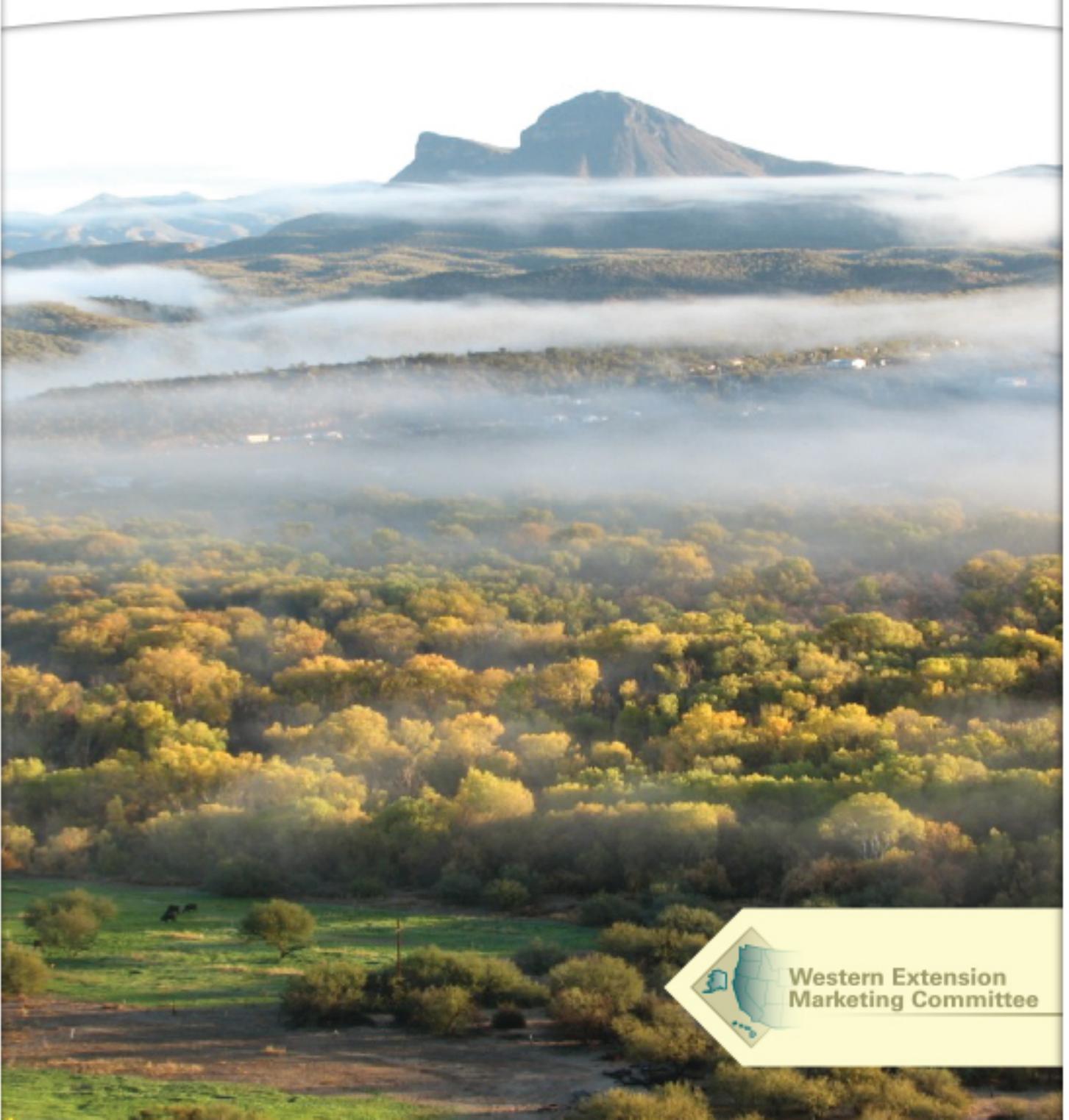


# WESTERN FARM AND RANCH TRANSITION STRATEGIES



# **Western Farm & Ranch Transition Strategies**

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## Double Check Ranch

### Creativity and Grass-Fed Beef Marketing Facilitate Family's Ranching Vision

Russell Tronstad, Professor and Extension Specialist, University of Arizona

Today, buying a cow-calf ranch in the West is often viewed as impossible unless one is wealthy, stands to inherit a ranch, or marries into a family that already owns one. But like many other Western ranching families, the Schwennesen family has never allowed the impossible to hold them back. Paul Schwennesen's family moved to Willcox in southeastern Arizona when he was in grade school. His father worked as a county extension agent with agricultural and natural resource responsibilities. By the mid-1990s, when Paul was in junior high, the Schwennesen family was taking a closer look at what they wanted for their family livelihood, especially since Paul and his younger brother were old enough to participate in the decision. Paul's parents, Eric and Jean, hired a facilitator to help them set goals as a family unit and decide how they should go about buying a ranch. Paul remembers the facilitator meeting with them several times over the course of about a month.



#### Phase I

Although they wanted to purchase a cow-calf ranch, the Schwennesens didn't have the financial resources. Years before, Eric and Jean had been engaged in Coordinated Resource Management (CRM), a process that manages the landscape and environment through consensus rather than traditional majority rule. Conservation easements were starting to appear, and the Schwennesen parents were

working with the Nature Conservancy on CRM and other issues. Jean, who Paul describes as "the creative one," saw that their family's goals aligned with Nature Conservancy goals.

In 1996 the Schwennesens, who knew that they wanted to purchase conservation easements, put together a three-way contingent offer between the Nature Conservancy, themselves, and a ranch owner with property along the San Pedro River. The ranch operated on about 10,000 acres, 215 of which were private riparian lands. As part of the conservation easement, all future

building rights were released on this property. An additional 1,000 acres were private lands outside the easement, and the remaining ranch acreage was composed of state and Bureau of Land Management (BLM) permitted cattle-grazing leases. The Nature Conservancy paid for the riparian land and then transferred it to the BLM. However, the land was still deeded as fee-simple private



property, rather than federal land. The ranch, known as “Double Check,” for its distinctive brand, also had a small slaughtering facility located along the conservation easement area that was built in the 1960s.

Dudleyville is at an elevation of around 2,000 feet, and most of the terrain lies in the transition between low grasslands and Sonoran Desert with saguaros, ocotillo, cholla, and other cactus. This landscape mix did not precisely match the landscape description the Schwennesens had in mind when they set their goals for acquiring a ranch; they had initially envisioned a place with better native grasslands and rainfall. However, they all agreed as a family that this was a stepping-stone toward their ultimate goal.

The Schwennesens worked the Double Check ranch for the next eight years. They used the slaughter facility next to the ranch that was then owned and operated by a neighbor. They marketed some of their beef as grass-fed and sold their product locally at farmers’ markets in Tucson and Phoenix, both about an hour and a half away. However, Paul notes that “the grass-fed movement hadn’t really taken off yet,” and they were having a hard time making the ranch break even. The Double Check was relatively small for a commercial cow-calf operation, and in 2004 Eric figured that it was costing them \$100 per day to live on the ranch. “This was crazy,” says Paul, “Having to pay for your livelihood; it’s supposed to be the other way around.”

Housing prices were escalating around that time, and Paul saw a magazine article selling ranch-based home sites in New Mexico instead of parceled-out, forty-acre horse properties. This concept appealed to the Schwennesens; a few “pretty” building envelopes would be built on, but most of the private land outside of the conservation easement area, particularly the steeper slope areas, would be managed as a ranching unit.

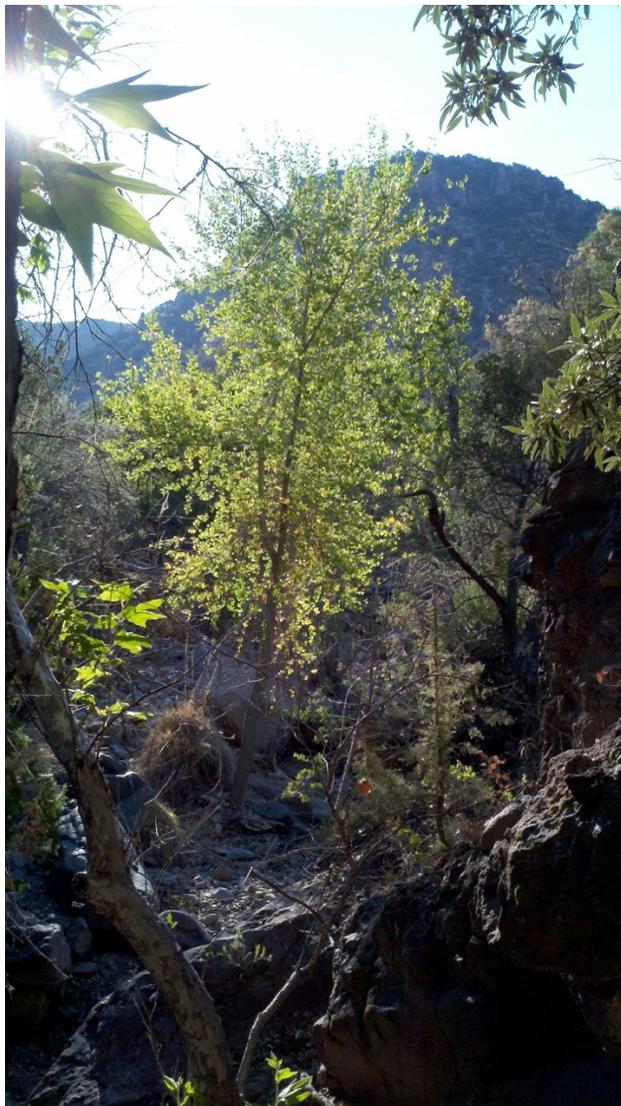
Also during this period, Pinal County rezoned an area near the Double Check ranch called Willow Springs for subdivisions, including fourteen golf courses. The family feared that this development would deplete the ranch’s water supply, although the developers assured them that

this wouldn't affect their wells. Jean challenged the developers to put a million-dollar bond on wells in the area as collateral for their no-impact claim, but the idea was coolly received.

## Phase II

When the Schwennesens approached a realtor with the ranch home-site concept, he asked them whether they would consider selling all their deeded land outside of the easement. Because the Schwennesens had initially planned for the Dudleyville ranch to be a stepping-stone, they were amenable, after some soul searching, to listing all of the ranch that could be sold. While the real estate boom and housing values were still strong, the Schwennesens had several “big-timers” look at their property (actor Michael Keaton is said to have checked it out by helicopter). They sold in 2004 to a real estate buyer out of Scottsdale who memorably showed up and asked, “What did I buy?” After the sale, the Schwennesens wanted to buy another ranch utilizing a section 1031 exchange to minimize tax consequences, but they only had a short period to identify replacement properties and 180 days to secure their new ranch property. Paul was in Afghanistan serving in the Air Force, so he wasn't able to visit the properties they were considering, but he recalls being part of the decision anyway. Paul notes that buying a ranch is almost like “an insider game on what is for sale or coming for sale, as some owners are on the fence about selling and don't really want to sell their ranch to just anyone.”

Eric and Jean were able to purchase Cold Creek Ranch, near the New Mexico state line in Arizona, about three hours away from the Dudleyville ranch. Cold Creek is at a much higher elevation and rainfall area compared to Double Check and has a high grassland ecosystem that is more in keeping with the Schwennesen's original vision. The Schwennesens maintained ownership of the conservation easement land along the San Pedro and used the sale proceeds to purchase the small slaughter facility.



## Processing and Marketing Grass-Fed Beef

The Double Check meat-packing plant lay relatively idle for several years, but in 2005 Paul and his wife, Sarah, decided to reinvigorate it by processing and selling their grass-fed beef locally. By 2006, both Paul and Sarah had finished masters programs at Harvard and were on their way back to Arizona. Paul recalls that after they had packed up and started their journey, he made a phone call to the Arizona Department of Agriculture (ADA) indicating their intentions and the need for state inspection of meat coming out of the Double Check plant. The ADA responded that they lacked the budget to conduct any inspections. With an anti-authoritarian streak and a freshly minted masters degree in Government, Paul and Sarah successfully lobbied Arizona legislators: the ADA was ordered to conduct meat inspections at Double Check without any real increase in dollars for their budget. The younger Schwennesens have since increased the number of cattle they slaughter to about twenty head per month, marketing all of their processed grass-fed meat cuts directly to consumers in the Tucson and Phoenix metro areas. Double Check purchases grass-fed animals from the Cold Creek ranch, but they also procure calves from other neighboring and regional ranches to meet their markets' demand. Their main marketing outlets are farmers' markets, restaurants, and freezer beef sales. One of the Schwennesens' goals is to have enough ranchland for the family to raise all the beef required for their grass-fed markets in a natural, humane, and sustainable manner.

When Paul and Sarah decided to move to Double Check in 2005, they formed a limited liability corporation with Paul's parents. In the spring of 2007, Paul, Sarah, Eric, and Jean all attended an estate planning and risk management workshop sponsored by the Risk Management Agency and conducted by individuals from the University of Arizona, Cooperative Extension,



Agricultural and Resource Economics Department, and from Farm Credit Services Southwest. Although they had already formed an LLC, this workshop helped motivate them to “galvanize more of an estate plan,” says Paul. Even though annual accounting profits may be barely enough to get by on a ranch, inadequate estate planning and land appreciation over time can force heirs to sell part of the ranch they inherited.

## **Future Directions**

Eric and Jean Schwennesen reside full-time on the Cold Creek Ranch and have added working ranch vacations to their operation, accommodating up to ten visitors at a time. Visitors come from all over the world, particularly Europe, attracted by the dramatic scenery and excellent winter climate. Their season runs from November through April.

The Cold Creek Ranch produces electricity from a medium-sized solar system, allowing an “off the grid” lifestyle. They have a biological plan to manage their lands holistically, working to restore biological diversity and the watershed. Their mission is to produce wholesome, natural beef with minimal inputs.

Paul’s younger brother is currently finishing his time in the Marines, and the Schwennesens are currently exploring ways to generate additional cash streams from the Cold Creek Ranch. Paul has been thinking unconventionally about ways the family can expand to produce around 800 to 1,000 feeder calves annually. Right now he is working on attracting capital from “ecologically minded investors” who value the environmental benefits of good stewardship. These investors would fund the purchase of a larger working ranch. Investors with a \$10,000 share would get a modest direct return on their money plus one-tenth of a processed grass-fed beef every year and other perks such as a ticket to the annual shareholder meeting and an exclusive access to ranch recreational activities for an established period of time. Investors with the most shares would have first priority for ranch access. Including all of the perks, Paul figures that a \$10,000 share would provide an investor with an annual return of approximately 10%.

Paul is quick to point out that the investors are really a debt rather than shareholders, as the title-holders would continue to make all management decisions. “We want people to buy into our philosophy of operating a ranch with decisions that are socially, economically, and environmentally sound, but we can’t run a ranch efficiently and properly by committee,” explains Paul. In addition, if the ranch were to be sold, the shareholders would not receive equity from the sale but rather their money plus some interest. Paul says that “this approach to securing capital may become the next significant chapter in ranching and agrarian land acquisition.” In April, Paul pitched his proposal to an investment group in Boulder called “Slow Money,” which fits the ecologically minded crowd that he is targeting. Within forty-eight hours he had commitments of \$60,000, and the attention is still pouring in. Whether or not the response is enough to justify a full-scale offering, the Schwennesens will continue to pursue their ranch dreams with the creativity and steadfastness that they always have.



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