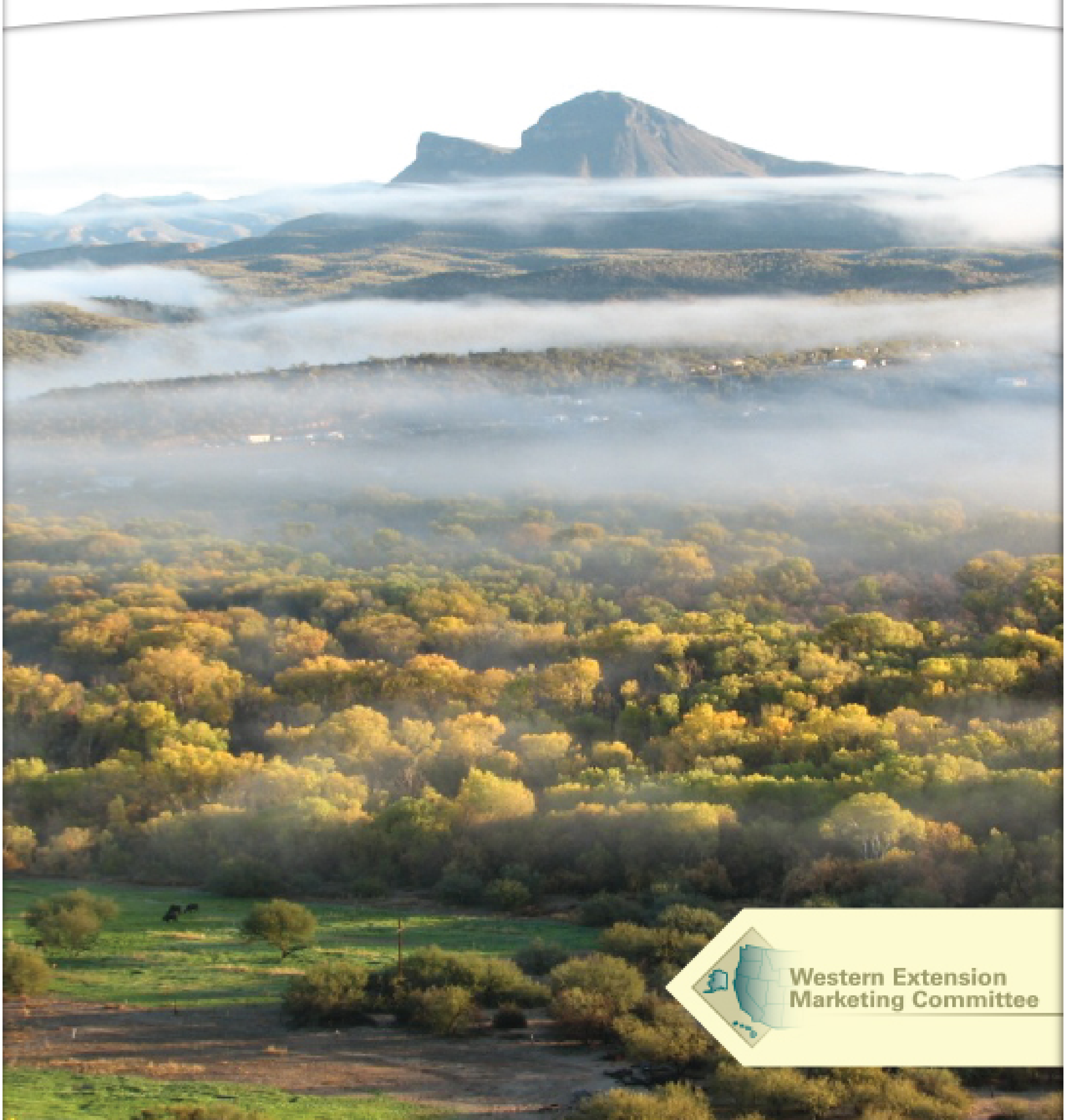
WESTERN FARM AND RANCH TRANSITION STRATEGIES



Western Extension Marketing Committee

Western Farm & Ranch Transition Strategies

Western Extension Marketing Committee Contributing Authors
Kynda Curtis, Utah State University
Cole Ehmke, University of Wyoming
Bridger Feuz, University of Wyoming
Karina Gallardo, Washington State University
Wilson Gray, University of Idaho
Russell Tronstad, University of Arizona

Outside Contributing Authors
Susan Slocum, George Mason University
Norman Dalsted, Colorado State University

Project Directors
Kynda Curtis, Managing Editor, Utah State University
Ruby Ward, Utah State University

Technical Editor, Layout, and Design
Amy Bekkerman, Precision Edits

Cover Design
Brady Hackmeister, Utah State University
Front Cover Photo Credit - Paul Schwennesen

A publication of the Western Extension Marketing Committee

http://www.valueaddedag.org

Table of Contents

Baker Ranch 1-1
Susan Slocum, Assistant Professor, George Mason University

Cole Creek Sheep Company 2-1
Bridger Feuz, Extension Educator and Livestock Marketing Specialist, University of Wyoming

Colorado Ranch 3-1
Norman Dalsted, Professor and Extension Economist, Colorado State University

Guild Ranch 4-1
Bridger Feuz, Extension Educator and Livestock Marketing Specialist, University of Wyoming

Hecht Creek Ranch 5-1
Cole Ehmke, Extension Specialist, University of Wyoming

Hull Dairy 6-1
Susan Slocum, Assistant Professor, George Mason University and Kynda Curtis, Associate Professor and Extension Specialist, Utah State University

Double Check Ranch 7-1
Russell Tronstad, Professor and Extension Specialist, University of Arizona

Stennes Orchards 8-1
Karina Gallardo, Assistant Professor and Extension Specialist, Washington State University

Westendorf Family Farm 9-1
C. Wilson Gray, District Extension Economist and Extension Professor, University of Idaho

Wong Farms 10-1
Russell Tronstad, Professor and Extension Specialist, University of Arizona

Baker Ranch

Susan Slocum, Assistant Professor, George Mason University

The Baker Ranch today looks nothing like the cattle ranch on which Rex Baker grew up. The wooden cabin, with its dirt floors and lack of plumbing, is long gone. The heaps of old equipment and piles of trash have all been cleared. Even the fifty head of cattle have been sold off. Instead, someone approaching the sprawling estate nestled against the mountains will notice the horse-drawn trollies, modern commercial kitchen, and wide expanses of raspberry bushes. Each generation of Bakers has adapted to the times, but Rex's great-grandfather would never have been able to imagine the variety of inventive offerings on today's ranch.

Background

In 1896, most pioneers were traveling west to find their fortunes, but Rex's great-grandfather headed east from Australia, sailed to California, and then made his way to the mountains of southern Idaho, where he homesteaded in Lava Hot Springs. Rex's grandfather started rearing sheep on the 1800-acre ranch, and it wasn't until Rex's father took over the farm in the 1960s, that cattle replaced the sheep. Potatoes were also a staple crop in the past.

Rex became a full-time ranch hand when he graduated from high school, and his father's premature death left Rex struggling to make a living. Having grown up in poverty, he realized that a second career would be necessary if he was going to keep the ranch from the debt collectors. Rex started working for the railroad; after his marriage, his wife, Peggy Ann, also worked to support the operation. Even though his father had not made any succession or estate plans, Rex's siblings had little interest in owning or operating the ranch, so he was able to take over the operation with minimal dispute and lease the land from his widowed mother. After about five years of leasing, he made formal plans to purchase the ranch as a way of protecting his investment in the equipment and other improvements he was making. After his mother's death, his purchase premium was disbursed to his siblings as their portion of the inheritance. Rex recalls the process as fairly easy.

Baker Ranch faced a number of challenges throughout the 1990s. Rex had been active in crop-sharing alfalfa—which grew in abundance in the vicinity—and used it to feed his cattle. As tourism in Lava Hot Springs increased, the valuable farmland that had been used to grow alfalfa was converted to an airport and subdivisions, supplying second homes to nearby urban populations and increasing rents on available agriculture acreage. Falling cattle prices also lowered the farm's profitability. Finally, when his two children left the ranch to make their own livings, Rex lost the core of his labor force. In 2004, Rex sold the last of his herd and leased most of his land as pasture.

Rex began diversifying long before the cattle left the ranch for good. In 1994—after losing his job on the railroad and desperate for money to pay his ailing mother's medical bills—Rex saw an opportunity in rising timber prices. Over a three-year period, he selectively cut some of his old-growth Douglas Firs. He used the cash from the sale to pay off the last of his debt and begin investing in and upgrading the ranch. The cleared forest evolved into a new pasturing area that generated additional financial returns. Once the undergrowth was cleared and the trees thinned, he realized that Baker Ranch was an outdoor paradise: Rex had discovered a new marketing niche. "Dad could see it coming," says Autumn, Rex's daughter. "It was an evolve or die situation. You couldn't make money on cattle, as cattle had bottomed out." The farm now offers horse-drawn trolley rides, snowshoeing trips, wedding facilities, and other special events to the traveling public and has made a success of their berry plantation, which specializes in raspberries that they sell at the local farmers' market and make into jam. The ranch is also active in the “Idaho Preferred” program, which has improved sales at their farmers’ market booth and expanded their marketing reach.

Business Plan

While Rex has not made any formal plans for passing the ranch to his two children, Autumn and Jesse, discussions about the operation’s future have already begun. As Rex says, “It’s tough for kids nowadays, that transition. You can’t make minimum wage when buying a ranch. We couldn’t have made it if I hadn’t worked for the railroad.” Jesse and Autumn have already established their careers outside of the ranch: Jesse is a miner in Nevada and Autumn owns an electronic medical-transcription business. But each has shown a commitment to maintaining the fourth-generation ranch in its entirety. Both children have maintained independent businesses while remaining active in the family’s concerns. A few years ago, Autumn suggested taking out a life-insurance policy on Rex that would cover any debt should Rex be unable to work. His children pay the premium on the policy and are the beneficiaries.

Each child has shown a different, but complementary interest in the ranch operation. Jesse has no interest in being the business manager of the raspberry patch, nor does he enjoy overseeing the tourist experience. He has purchased eleven acres as a hobby ranch and has considered raising springer heifers to sell to other area ranchers, which better suits his interest and personality and does not use any of the resources required by his parents’ operation.

Autumn is much more social than her brother and has been running the farmers’ market booth every weekend since she was in high school; she loves interacting with the tourists. She has purchased the last remaining building lot near the ranch and plans to establish a bed-and-breakfast, which is sorely needed in the Lava Hot Springs area. Autumn invests her own money into her ideas, such as adding elderberries to the berry plantation, although she intends to borrow a small plot of land to expand her commercial fruit enterprise. She laughs when she says, “My father likes the idea, I like the idea, but mom knows that she’s going to end up with a bunch more work since she runs the commercial kitchen.” Autumn suffered her first financial loss when her supplier sent the wrong starts, which were not conducive to the severe Idaho climate.

Autumn has taken the lead in investigating the family's transition plan. "I'm the one that sees where things can go wrong if we don't have a plan in place. Getting my parents to talk about their plans helps me because I know most of that is going to fall on me anyways," she says. Five years ago, the family attended a small-business development meeting in Pocatello, where they realized that they had already discussed and completed many business-planning steps for Baker Ranch. However, a formal document has yet to be written. "All of the ranch's relationships are based on my dad," says Autumn. "The banks and the loans for farming. The banks have never required any documentation because they know him. But if I have to take over, they don't know me and I need to have a business plan to show what I can offer." Rex adds, "We have done a lot of documentation though. We ought to pat ourselves on the back because it's all there. It's just not organized like in a business plan." Autumn also attended an estate-planning workshop for farmers conducted by Utah State University's Cooperative Extension. These classes helped her realize the complexity of farm transitions, and she is currently working with an estate planner and an accountant to formalize the process.

Communication

Watching the Bakers over coffee and snacks, the ease with which they communicate in ways that are both supportive and inclusive, is striking. As they plan their expansion into other operations, ideas flow easily from everyone in the room. Peggy Ann says, "When we get an idea, we are all pretty good about researching it. We research it and we talk about it." The family agrees that the horse barn was mostly designed on napkins at restaurants, with everyone's input. Each member of the family is autonomous, even though the family as a whole is a team.

Autumn feels competent to run the ranch when the time comes. "I've been the slave labor most of my life," she jokes, but she says that she has never been left out of the loop on marketing, program ideas, or new revenue-generating ideas. Her father also feels confident that she has integrated herself into the operation. "Autumn knows where to hire the draft horses, how to feed and care for them, and all the other aspects of the business," he adds. The family has always included the children, and Autumn's passion shows when she talks about the ranch: "I just need to know how Dad wants things run, then I can make adjustments to that as needed. If Dad has an idea, I'll toy with it for weeks or months, and then, if I want to put money into it, I will." Otherwise, Rex and Peggy Ann can move forward on their own.

But Autumn recognizes that it is not her time yet and maintains a supportive distance while her parents continue working the core areas of the ranch. Jesse tends to be the more careful child,

cautioning that the family's entrepreneurial ideas create more work for their parents. "The conversations my parents have with Jesse are probably very different than the conversations I have with my parents," says Autumn. While he is still only in his late twenties, his involvement in the ranch seems less hands-on, but his commitment to his parents and their lifestyle stays strong.

Conclusion

The Baker Ranch has always been a snapshot in time and has reflected the ranching strategies of the managing generation since its foundation. From a sheep to a cattle ranch, it has evolved into an innovative tourism paradise that finds revenue sources in unlikely places. The key is ingenuity, which Rex, Peggy Ann, and Autumn share. But most importantly, their success lies in open communication and the inclusion of honest opinions in the planning process, which allow Baker Ranch to be more than just a business or just a family, but an example of a successful family business.

Cole Creek Sheep Company

Bridger Feuz, Extension Educator and Livestock Marketing Specialist,
University of Wyoming

The Cole Creek Sheep Company has been an established Wyoming ranch for over a century. Peter C. Nicolaysen, who emigrated from Denmark around 1880, was running sheep in the Cole Creek region just north of Casper, Wyoming, by 1889. In 1909, Peter consolidated his interests and formed the Cole Creek Sheep Company. Using his ranch as a base and taking advantage of nearby range grazing, he built up his numbers to over 16,000 head. Hard work and dedication have allowed the ranch to remain in the Nicolaysen family.

Peter's son, Jerry, was the next Nicolaysen to manage the ranch. His conservative style, attention to detail, focus on costs, and willingness to diversify guided the ranch through an important era. His management style was essential to the ranch's success as the Western sheep industry prospered through the 1950s and was even more critical during its decline in the 1960s and 70s. Jerry had the foresight to operate conservatively, with significantly fewer sheep than the original 16,000 head, and diversify the ranch by adding Hereford cattle. Jerry's son, Jon, took over the ranch with a sound financial position and opportunities for growth.

Jon expanded the size of the ranch and grew both the sheep and cattle herds. The size of the sheep herd peaked again during the late 1970s at 6,000 head. But in 1993, Congress enacted legislation that phased out the wool incentive program, and incentive payments were terminated in 1995. After the wool support was removed, the ranch once again reduced sheep numbers, and they now run approximately 1,000 ewes. An additional factor in the declining sheep numbers was the removal of effective predator control methods.

The ranch is currently owned by Jon Nicolaysen and his three children. Their primary livestock products are Rambouillet lamb, wool, and Angus calves, which they market through standard commodity agriculture methods, including auction barns, video auctions, and order buyers. The ranch has also sold Rambouillet breeding stock directly to other local sheep producers.

One of Jon's sons, Kem, has recently been integrated into the management and operation of the ranch. Kem and his wife, Shelly, chose to return to the ranch and continue the Nicolaysen legacy. Kem grew up working on the ranch and learned to appreciate the life of a Wyoming rancher, but he pursued other opportunities in college and earned an M.A. in Literature. After graduation, Kem taught at a community college in Arizona. Shelly grew up outside of agriculture in Washington. She earned an M.A. in Religious Studies and had not been exposed to ranch life until the couple moved back to Kem's family ranch. However, Shelly moved to the ranch determined to contribute to its success. This determination, a bit of chance, and a healthy dose of creativity led to the creation of Cole Creek Wool.

Shortly after arriving on the ranch, a bum lamb showed up on Shelly's doorstep. Not willing to watch it die, Shelly cared for it, and soon two more bum lambs were in her care. She now had two ewe lambs, Bones and Bonnie, and a wether, Clyde. When fall came, Shelly could not bring herself to send her wether lamb with the rest of the lambs being shipped off the ranch. By chance, Sharon Brondos, a relative, visited the ranch and remarked to Shelly on the quality of the sheep's wool. Sharon is a "hand spinner" and found the good wool appealing. The only drawback of the ranch wool was that it was dirty, making it hard to clean and difficult for hand spinners to handle. With a little research, Shelly found that sheep could be coated with a solution to keep their wool clean and that this clean, quality wool could be sold. So Shelly coated her small flock and began the Cole Creek Wool Company, which was a natural fit for both Kem and Shelly. Kem says that, more than anything else, the smell of the wool brought back the nostalgia of growing up on the ranch. Shelly, a vegetarian, had found a niche on the ranch that fit her background and inclinations as well.

Cole Creek Wool is owned by the Cole Creek Sheep Company and managed by Shelly Nicolaysen. The company sells yarn, roving, batt, and raw fleeces direct to crafters and online at colecreekwool.com. Fleeces from Shelly's coated sheep are processed at Mountain Meadow Wool Mill in Buffalo, Wyoming. The mill cleans and cards some of the fleeces to be used as roving; others are spun into yarn. The Nicolaysens are very pleased with the quality of product they receive from the mill. Shelly researched comparable niche-market wool producers and products to come up with marketing ideas and product offerings. She continues to study the craft market and is contemplating using specialized ecommerce sites to target crafters.

The ranch provides the facilities and the sheep for the wool company, and the wool company's products complement the ranch's other offerings. The sheep continue to arrive as bum lambs, and the flock now includes six coated fleeces. The new business unit requires few additional production inputs: coats for the sheep and some additional feed resources to maintain a separate, smaller flock are the primary inputs. Another key element to the company's success was that Kem learned new shearing techniques that took better advantage of the fine wool under the coats.

But these have not been the only production impacts on the ranch. In an effort to improve the quality of the wool and enhance the product, the family introduced Merino genetics into the flock to take advantage of the superior wool quality without losing the frame, growth, and hardiness of the base Rambouillet genetics. The herd still remains about 70% Rambouillet, with Merino contributing the other 30%. The Merino genetics have improved the quality of the wool from 21 microns to 19.5–20 microns in diameter. Lower micron measurements represent finer wool fibers. Kem has enjoyed the challenge of improving the flock's genetics, which has allowed him to carve out a niche for himself in the overall ranch management. Kem says the endeavor has also seemed to light a fire in his dad, Jon, who has also enjoyed the challenge of improving the genetics to offer a higher quality wool product. As an added benefit, Kem says the genetic improvement has led to an increase in the demand and price of rams sold as breeding stock. Managing the herd and its genetics has provided Kem with an opportunity to hone his management skills and allowed him to earn his father's trust. Kem now manages the bulk of ranch operations, including the sheep and cattle herds, farming interests, and other business interests associated with the integrated and diverse Wyoming ranch.

Another complementary effort between Cole Creek Wool and the Cole Creek Sheep Company is the use of third-party wool verification. Yokum-McColl tests the main flock each year at shearing. The service is integral to the Cole Creek Sheep Company's genetic improvement program and is an important marketing tool for the commodity wool. Nicolaysen wool now consistently tests between 19.5 microns and 20 microns. Merino cross rams from the ranch have tested at an average of 18 microns. The service is also a boon to Cole Creek Wool, allowing them to verify the quality of their product.

Managing the supply/demand relationship has been a challenge for Cole Creek Wool that the company has tackled through trial and error. High processing costs for the low-volume operation dictated that the wool products needed to be priced accordingly. At first, this seemed like a hindrance to profitability and sustainable success, but at current volumes and with high-quality wool products, demand has been strong, allowing Cole Creek Wool to set prices that cover the additional costs of production and provide a modest return. Cole Creek Wool's commitment to quality and their customers has been integral to establishing and maintaining strong demand.

Overall, Cole Creek Wool has been a successful complement to the Cole Creek Sheep Company. Its creation was not forced but resulted naturally as a way to capitalize on a real asset—the ranch's high-quality wool—and leverage the strengths of both generations. Shelly's creativity and Kem's talent and desire for genetic improvement and selection within the herd were important in creating the company, but Jon's skills as an experienced ranch manager and sheep man provided the foundation for both the flock and a business structure that can accommodate growth. Without both generations working together, Cole Creek Wool could not exist.

Kem's long-term goal is to be able to make the coated-sheep, niche-market wool business sustainable as part of a large range-sheep program. The Nicolaysens and others have proven that it can work on a small scale in Wyoming, but understand that there are significant challenges to scaling up to a range-sheep scenario. Kem realizes that the production challenges at this level may be greater than the advantages of increased production. As a result, Cole Creek Wool has taken a controlled and cautious approach to growth.

Successful ranch succession planning is more than just estate planning. The Nicolaysens understand that the transfer of knowledge, skills, and entrepreneurship are as important as the process of ranch inheritance. Jon has been a great mentor and teacher for Kem, and Kem has worked hard to learn and absorb Jon's ranch management skills. One of the greatest values of Cole Creek Wool and the sheep enterprise of Cole Creek Sheep Company to the Nicolaysens is that they have provided a conduit for Kem to grow into managing the whole ranch.

Cole Creek Wool represents just one aspect of the ranch succession plan. Jon has been proactive in transitioning the ranch to Kem and his two siblings. The larger ranch succession plan incorporates limited partnerships and consistent gifting. This proactive approach and the decision to embrace diversification opportunities such as the wool company make the Nicolaysens optimistic that this century-old operation will be sustainable for generations to come. And in the spirit of cooperation, Kem and Shelly have begun a family of their own. Now the planning can begin for the transfer to the next generation.

WEMC CS#3-13

Colorado Ranch

Norman Dalsted, Professor and Extension Economist,
Colorado State University

Early miners kept a canary in the mine to detect poisonous gases. Many farm and ranch families also have a canary—someone who first raises issues about estate planning and intergenerational transfer on the ranch or farm. In the current instance, the canary was a daughter-in-law with concerns about the family partnership's checkbook.

The operation, a cattle and small grains operation of approximately 10,000 acres of deeded range and dryland farm ground plus about 5,000 leased acres of rangeland in eastern Colorado, has a long history, starting with a homestead claim. The parents are descendants of the original settlers who settled in Colorado in the late 1880s. The operation is owned and operated as a family partnership that includes the parents (the managing partners) plus their two sons and their spouses. The operation produces primarily wheat, some spring crops such as millet or corn, and beef. In 2003, there were 1,000 mother cows and 6,000 acres of winter wheat and millet. The operation is debt free, and in 2003 the value of the total estate was nearly $9 million, based on an appraisal of the land, machinery, livestock, and farm improvements.

Although it is a traditional ranch/farm operation, the younger generation is well educated and has been directly involved in the operation since graduating from college. Both sons and their spouses have four-year college degrees in agriculture. The two sons split the day-to-day work responsibilities of the operation: One son runs the cattle operation while the other heads up farming operations. Their father is currently in his early 70s and assists the sons as needed. Their mother is the bookkeeper/accountant for the businesses. She is three years younger than her husband. Mother typically writes all of the checks for the business, keeps the accounting records, and assists with tax preparations for the family partnership. In the past, when the parents left to spend the winter in a warmer climate, the checkbook also made the trip; bills and invoices were forwarded to them for payment. Their concerned daughter-in-law raised a very important question: “What do we do if something were to happen to Mom and Dad?”

At a family meeting based on this question, several issues surfaced: neither parent had a will, neither parent had granted power of attorney to any of the family partners, and there was no estate succession plan. Follow-up meetings were scheduled to discuss transfer, control, and fairness issues. One very important step the family pursued early in the process was to select a qualified estate attorney, who outlined a process to help solve the transfer issues. Based on the parents’ ages, time was of the essence.

When the initial estate plan was developed in the early 2000s, the tax exclusion was less than the $5 million available today. The original estate plan used many of options the then available: A marital trust was used to establish the use of the $2 million exemption for each parent available in 2004. This exemption increased to $5 million from 2010 through 2012. The $5 million exemption indexed for inflation ($5.25 million in 2013) became permanent with the American Taxpayer Relief Act passed in January 2013. With the unused portion of the federal estate tax exclusion ($5.25 million per parent), the portability option added by Congress could be transferred to the surviving spouse, allowing the parents to utilize a $10-million-plus exclusion.

Using the individual exemption in 2004, $4 million of the estate was excluded from estate taxes. The parents gifted partnership assets—which included the machinery, livestock, and a portion of the real estate shares—to their children and grandchildren annually, but there was concern about whether this gifting would be sufficient to counter rapidly increasing land values. The family decided that machinery and livestock replacement would become the responsibility of the two sons, shifting those asset values away from the parents.

Many farmers and ranchers must find ways to counteract rapidly escalating farm and ranch land values and the impact this has on their estates. Based on information published by the Kansas City Reserve Bank, land values in Colorado appreciated significantly in 2012. Assuming the values of this $9 million estate appreciated at a modest 2% per year from 2004 through 2008, the value would be nearly $10 million by 2009. Land values increased on average 11.5% per year for nonirrigated farmland, 11.3% per year for irrigated land, and 10.1% per year for rangeland from the beginning of 2008 through the third quarter of 2012. With a 10% average increase from 2008 through 2012, the value of the estate increased by nearly 50%, to $14.5 million, in only five years.

Under current law (American Taxpayer Relief Act, January 2013), the estate would incur a large estate tax liability (40%) of $1.8 million. The family has realized that rapidly increasing land values make an annual evaluation of their estate plan necessary. The 2004 estate plan initiated a transfer of shares in the partnership to the two sons and their families to ensure a succession plan that provides for the continuity of the business. The parents remain the controlling managers of the operation, and rapidly appreciating land values in their area have not kept pace with the gifting partnership strategy.

The special-use provision, which exempts approximately $1.3 million from the estate, may be necessary at the time of the last parent’s passing, but significant requirements must be met if this option is to be exercised. Another option that farm and ranch families have utilized is a conservation easement. However, given the location of this operation, it is doubtful that such an easement would be of much benefit. Currently, potential easements are scrutinized relative to the appraised value of the land and the percentage of land to be placed in the easement. Another issue often overlooked is the salability of the land once an easement is granted.

Since the two daughters were not involved in the operation, there was a need to provide them with part of the estate. The parents chose to pursue two options. One was procure a “last to die” term-life insurance policy. The daughters own the policy and are its designated beneficiaries. The parents gift cash to them annually to pay for the majority of the policy’s premium. Secondly, the parents willed the daughters their certificates of deposit (their retirement account) and personal assets such as vehicles, motor home, and household goods. The daughters were somewhat satisfied with this arrangement. Since both parents are alive today, they have revised their estate plan. With the $5 million exemption, together they have a more than $10 million exemption. Even with rapidly increasing land values, the family feels comfortable that their current estate plan has significantly reduced the financial risk associated with the operation. Now the two sons are developing their own individual estate plan to transition the operations to their own children. This is a good ending for this family.

Guild Ranch

Bridger Feuz, Extension Educator and Livestock Marketing Specialist,
University of Wyoming

The Guild Ranch was established nearly a century and a half ago when Charles Guild emigrated from England to Piedmont, Wyoming, in 1867. Charles ran the local Pony Express Station for a year and then opened a store in Piedmont, which was originally a contracted railroad camp and later grew into a refueling station for the helper engines. Charcoal kilns were erected near Piedmont to produce charcoal for local smelters and restaurants. Piedmont is now a ghost town that sits within the boundaries of the Guild Ranch.

While Charles Guild was running the store in Piedmont, he began purchasing homesteads in the area and put together the Guild Ranch. The ranch is primarily a cow/calf yearling operation that supports 600 mother cows. All calves are retained and sold as yearlings. Earl Guild and his wife, Jody, represent the fourth generation to own and operate the ranch, and their son, Kelly, and his wife, Dixie, are the fifth generation. The sixth generation is just beginning to integrate themselves into the operation.

The Cattle Enterprise

Like many other Wyoming ranches, the Guild Ranch originally raised Hereford cattle. The ranch now comprises Hereford, Angus, and Limousin genetics, with a primary cross of Limousin and Angus. The crossbreeding program has resulted in significant gains in yearling weights—from 600 to 1,000 pounds—during Earl's tenure on the ranch. Consistency has been a key asset for the Guild Ranch in the cattle business. In order to assure consistent improvement, the Guilds raise all of their own replacement heifers. This emphasis on consistency and constant improvement has paid off for the ranch in the form of a satisfied cattle buyer: the ranch has now had the same buyer for their yearlings for over fifty years, and the buyer's son now buys Guild Ranch cattle as well.

Bringing in a Son

Several years ago, Earl and his brother were joint owners of the ranch, and Earl's son, Kelly, was just finishing up his second year at Dixie College. Kelly played football at Dixie and had offers to continue his college career at several four-year universities. While wrestling with the school decision, his uncle contacted him to let him know he was ready to move on from the ranch. Kelly decided the timing was right and returned to the ranch to stay. His uncle sold fifty percent of his shares to Kelly and fifty percent of his shares to Earl, making Kelly a twenty-five percent partner. Earl's other three children—Wendy, Adam, and Doug—do not own ranch assets. The Guilds attribute their ability to keep the ranch in the family after multiple generations to limiting the number of direct owners, which enhances the ranch's sustainability.

Transferring Management

The Guilds have used a proactive ownership strategy to transfer ranch assets from Earl to his son. Kelly's purchase of twenty-five percent of the ranch gave him a significant stake in the operation. The sale required some creative financing, but family ownership was and is more important to the Guilds than cash. Unlike many traditional operations, in which ownership is transferred only through inheritance, this early ownership transfer allowed Kelly to be a decision maker on the ranch. Even though he was a minority partner, he had enough shares that management decisions became a true team effort. And those decisions directly affect his financial success, making it necessary for him to understand the direction his father takes. Earl has continued to transfer more of his share of the ranch to Kelly as an estate management tool, and Kelly is now the majority owner.

In order to teach Kelly the necessary management skills and capabilities, Earl allowed him to make mistakes. Kelly and Earl discussed most decisions and Earl shared his knowledge and

experience with Kelly, but he often allowed Kelly to make final decisions on operational issues, even when he knew that those decisions had a high likelihood for limited success or even failure. Kelly was able to learn from his mistakes and become a better manager and partner to Earl. This simple strategy has been extremely effective. While it is always difficult as a more experienced manager to allow others to make decisions you know are likely to fail, it is even more difficult not to say, "I told you so" afterward. Kelly credits Earl with providing guidance and having patience as Kelly built his management skills. Kelly realizes how difficult this task is now that his own sons are showing interest in the ranch.

Earl's trust in Kelly has paid off. Kelly has made several decisions that have significantly increased the ranch's productivity and sustainability. For example, about twenty years ago Kelly stood at the top of a bench pasture and wondered what would happen if he could get water to it. The ranch had two reservoirs about ten miles away at a higher elevation than the pasture. As Kelly considered the options, he envisioned a pivot operating with gravity-powered flow from the reservoir. Kelly contacted a University of Wyoming engineering expert and together they developed a system that carried water for seven miles down a ditch and through a pipeline for three more miles. Kelly also worked with a University of Wyoming crop specialist to understand how to manage an alfalfa stand for production and sustainability. As a result, the Guilds produce 3.5–4 tons per acre on 220 acres irrigated by a highly efficient gravity-fed center pivot. The acreage now accounts for fifty to sixty percent of their total hay production.

Enterprises for Other Family Members

Although they do not own any part of the ranch directly, two of Kelly's three siblings have developed enterprises that make use of their own skills and talents in combination with the ranch's resources. Adam operates a hunting and fishing business, and Wendy manages a pioneer trek experience.

Fishing and Hunting Enterprises

The Guild Ranch's main reservoir is integral to ranch irrigation, but it also serves as a fishing resource. The reservoir was originally stocked with fish for family use, but the Guilds quickly discovered that the reservoir could sustain large fish.

Dan Peterson, an in-law, enrolled in the Farm Management Program at Ricks College, and one of his classes required him to complete an agricultural project business plan. Dan chose to explore a fishing enterprise based at the 200 fishable acres of the river- and spring-fed Guild reservoir. The enterprise looked promising enough that Dan and Adam worked together to develop the business, and they began offering paying customers the opportunity to fly fish for giant Browns, Rainbows, Cutbows, Tigers, and Brookies. Dan later moved on, but Adam still operates the fishing operation.

Adam is passionate about hunting and fishing. Using the knowledge and experience he gained hunting on the ranch, he also began a hunting business on the ranch, which has excellent hunting opportunities for antelope, mule deer, and elk. Adam initially operated the hunting business himself, but his primary career teaching art and helping coach the wrestling team at Star

Valley High School made it difficult to dedicate the time needed to make the business successful, so he leased the hunting rights to a local outfitter.

Pioneer Trek Enterprise

Twenty years before Piedmont was established and Charles Guild founded his ranch, Mormon pioneers heading west took a trail that passed through what would eventually become the Guild Ranch. Significant points of interest along the trail as it passed through the ranch include Gravel Hill, Muddy Camp and Crossing, Williams Hollow, and Dibble Rock. Many people were interested in celebrating the sesquicentennial of the pioneer trails in 1997 by reliving the pioneer trail experience. Congregations from the Church of Jesus Christ of Latter Day Saints (commonly known as Mormons) organized church-sponsored outings along the trail, which gave church members an opportunity to better understand the trials faced by their predecessors. Several congregations choose a portion of the trail that passed through the ranch. Seeing an opportunity, Earl's wife, Jody, and daughter, Wendy, catered dinners for the participants. The Guild family provided Dutch oven dinners and shared area history with groups passing along the trail. The idea was not originally intended as a money-making venture but as a way to share the family's knowledge and experiences with the trail participants, but the seed of a business was there.

Later, a separate group approached the Guilds with the idea of leasing the rights to their property for handcart treks. The Guilds felt they had more to offer than simple access to the pioneer trail and that a simple lease would not suffice; instead, they formed a partnership. Wendy Guild Peterson now manages Pioneer Trail Handcart Treks, which was founded in 2009. The treks serve an average of 4,000 trekkers per year. Wendy manages the bookings and reservations and provides a fireside program for trail participants. She shares experiences as well as history and pioneer stories from her ancestors, who settled the area in 1866. Wendy and her husband, Doug, live on the ranch, making it convenient for managing trekkers' daily needs.

Concluding Thoughts

One of the Guild family's main goals for the ranch is for it to remain a sustainable ranching enterprise within the family for generations to come. With this goal in mind, direct ownership of the ranch has been limited so as not to dilute the ranch income derived from the cattle enterprise. However, the Guilds also recognize the benefits of using ranch resources and the value of involving family as a part of the ranch without direct ownership. With this combined approach, the Guilds are confident that the ranch will remain viable and within the family for many years and many generations yet to come.

Hecht Creek Ranch

Cole Ehmke, Extension Specialist, University of Wyoming

In 2012, there were more than 5,600 cattle ranches in Wyoming, a state in which the harsh Western environment and production conditions have traditionally challenged producers. The state has a short growing season (average Zone 4, a 140-day growing season), clay-bearing soils, and the highest mean elevation in the United States. Hecht Creek Ranch, a family business owned by Art and Dorothy Sigel, is nestled in the foothills of Wyoming's Medicine Bow Mountains. The Sigels ranch full-time, raising stocker cattle with their two sons and their families. Art and Dorothy bought Hecht Creek Ranch—which was originally homesteaded in 1887— in 2005, when Art was concluding his career in the chemical industry.

Background

Hecht Creek Ranch sits at about 8,000 feet above sea level and is beautifully situated in the Centennial Valley, with its rolling hills and nearby mountains. The ranch is not large by Wyoming standards—about 2,400 acres plus leased land. The Sigels's primary business is raising stocker cattle (calves or older animals maintained, often on pasture or rangeland, to increase their weight and maturity before being placed in a feedlot), some of which they own. In their first years on the ranch, they operated as a cow-calf operation, but they have decided that raising hay and feeding

animals for six months of the year at their elevation was not a good fit for their ranch resources. The ranch has also added a direct-marketing venture for grass-fed beef and a small guiding venture.

Dorothy and Art are almost seventy, and their two sons are both married and approaching forty. In Art's words, "It's time to back out and to bring them into full management of the ranch." To do that, they are embarking on what they anticipate will be a five-year training and transition period before a final successor takes over the ranch.

Beginning with the End in Mind

Art studied chemical engineering in college and spent forty years in the industry both as an engineer and running a company. His business background is exceedingly valuable to the ranch. As Art and Dorothy were concluding their industry careers, they found and bought the Hecht Creek Ranch. Their son Ed, then a commercial airline pilot, moved to the ranch with his wife. Within a year, Dorothy and Art moved into the other house on the property. And soon after that, younger son Matt moved into a third house. Art and Dorothy are clear about their long-term goal: they want the ranch to stay in the family, hopefully for several generations.

Ideally, each transition has at least three stages. The first is the testing phase, in which the older and younger generations work together on the property and get a feel for how well things work among all those involved. The second is the transition phase, which refines the successor's training. The third is the exit phase, in which the older generation leaves the labor, management, and ownership of the ranch in the hands of its successors.

The Sigels are keenly aware of the issues associated with the second, transition phase of succession. A primary concern in the transition is control. For Art, control is about who calls the shots. Uncertainty for the Sigels and their two sons lies in the fact that both sons are interested in running the ranch. For that reason, the Sigels are planning for a transition period of three to five years in order to provide time to determine the nature of the exit and how to allocate managerial responsibilities.

Communication

Open lines of communication have been important to the Sigels since they began the transition. Several times a year, the Sigels have family meetings in which they get together for an hour or two to deal with larger issues. How did they do over the last year? What is the budget for the coming year? What does the general schedule look like? When they are going to have roundups? When do they anticipate shipping cattle? They include their two daughters-in-law in all meetings as well. “It’s important that we talk about when things are going to be busy so that everyone is on the same page.” Art tries to publish those schedules so that everyone has a sense of what’s going to happen in the year. At a more operational level, the Sigels have a fifteen- to thirty-minute morning planning and operations meeting three to five times a week while sitting around the kitchen with a cup of coffee to set priorities and update everyone on what is happening on the ranch.

The transition has been addressed in some of their morning discussions, but also informally when they are out working on the ranch and when they are sitting around in the evening having a drink. “We keep talking about options, different ways that we could do it, interests and so on, but we just don’t want try to push it to a conclusion before its time. We don’t mean to make a decision right now. This is one of those things that needs to simmer.” Hence the five-year plan.

Bringing in the Younger Generation

As with many family business transitions, financial viability is a factor. Art and Dorothy have achieved what they started out to build: a stable, self-supporting financial entity. Considerable planning has been key to their success. As the Sigel families shifted to working on the ranch, Art put together *pro forma* balance sheets and income statements to figure out whether operating a ranch could be profitable. Art describes their annual planning process this way:

> We have an accountant in town that does our taxes for us. After he’s done our taxes, he gives us a balance sheet and a P&L and depreciation schedules, and that’s what we share with everyone. Then, every year we develop a budget for operations, a profit and loss statement, and our own balance sheet. We also create a list of projects which we cost out, so we know what those projects are going to require, both in dollars and time. And we spend a fair amount of time working to evaluate the changes that we are going make in the ranch and how much each is going to add to the bottom line of the profit and loss statement. Then between the budget, which is kind of a baseline, and the projects, we have our operating plan for the year.

While the summarized budget and their projects list generally fit on two pages (making it convenient to put side by side and see how things look), the background information generated to create the summarized budget can require significant detail. If they are looking at a project that might earn an extra $10,000, then it may take several pages of calculations and assumptions to describe their plans exactly. Once everything is laid out, the plan is clear and everyone can commit to it. An important part of developing the budget is making sure that everybody is able to buy in early. As the Sigels move into transition planning, documents like these are proving invaluable and help Art include his sons in the business aspects of ranch management. The younger generation has also been involved in other ways. Matt markets beef from the ranch's small herd of grass-fed cattle at local farmers' markets, and Ed takes advantage of Hecht Creek Ranch's location to offer hunting and guiding.

One component of the transition training is the ranch's grazing plan. The ranch is divided into forty pastures; based on accumulated knowledge about each pasture's productivity, the Sigels assign cattle to each pasture. Older son Ed currently builds the plan, and Matt is learning the details. As a stocker operation, some of the biggest decisions in the year are about which cattle to buy and at what price. Derivative decisions are how many days the cattle will be on grass given a certain average daily gain. The Sigels have built a spreadsheet calculator to help determine the return on investment of every lot of cattle; transferring knowledge about how the process works is part of transition training. "With this transition process, Dorothy and I are trying not to assume that the kids have all the tools and skills to take over the operation of the ranch in every respect. That's a killer assumption," says Art. The Sigels are thinking purposefully about how they can build capabilities through training, seminars, and their budgeting and grazing plan efforts. All of these steps are important to Hecht Creek Ranch's five-year transition.

An area of particular concern is the transfer of the business relationships. Farms and ranches may have excellent business relationships, but these may be built largely on one person. As the older generation transitions and eventually exits from operation management, the successors will want to be sure that business relationships are not damaged. For instance, it could be disastrous if the ranch's banker were to decrease their line of credit because of uncertainties about the new management's capabilities. Art observes that that would be a nasty surprise that any rancher would want to avoid.

Moving Toward a Decision

In many ways the Sigel sons are complementary, not conflicting. They are both college graduates, they both like to read, and they are both former hockey players. But they have different areas of interest. Ed is very much interested in the cattle and grazing, and he has a natural affinity with cattle and horses. Matt is more interested in the facilities and has a background in business; he enjoys working with computers and planning with spreadsheets. The brothers have been enthusiastic about working together from the beginning.

The Sigels's sense is that whatever conflicts there might be about how the transition might unfold, these are not overwhelming. Art says, "I think that we'll give it a bit of time. Time will help us to come to a consensus view on what ought to be done."

Hull Dairy

Susan Slocum, Assistant Professor, George Mason University and
Kynda Curtis, Associate Professor and Extension Specialist, Utah State University

Rob Hull was well on his way to a successful career in HVAC and audio/video installation when he realized that his parents were aging and their fifth-generation family dairy farm was at risk. His dad, Bob Hull, had wanted great things for Rob, including an opportunity to attend college, but Rob's "great thing" was his love of the dairy on which he was raised. Even though his father was reluctant, Rob returned in 1996 to the life he had loved as a child and went to work at Hull Dairy full-time with his wife, Holly. Seventeen years later, the Hulls look back on the challenges that have brought many changes to Hull Dairy, including the transition to their full ownership of the operation, beginning in December 2012.

Background - History

Hull Dairy, located in Whitney, Idaho, is a fifth-generation dairy farm. Robert McClellan Hull, Rob's great-great-grandfather, emigrated from Scotland in 1855 and crossed the plains with his family in 1860. They began homesteading the farm in 1875. The settlement was originally called Hull's Crossing, and Main Street in Whitney still goes by that name. Today, Hull Dairy includes over 200 acres of prime acreage for growing alfalfa and barley and supports ninety head of Holstein cattle. Recently, increasing feed costs and stagnant milk prices had strangled the farm's profitability. The Hulls wrote on their blog recently, "Dairy Farmers have little if any control over the price they get for milk. With input costs so high and the price of milk dropping, it is starting out to be a long hard year." Like many traditional farmers, Bob Hull had little experience or interaction with the final consumers of his dairy products. For generations, the Hull Farm had marketed their bulk milk production exclusively through wholesale cooperative distribution centers. Using Dairy Farmers of America as their exclusive distribution channel made finding new markets or adding value to their bulk milk product seem inconceivable.

Rob’s father approached the operation in much the same way as had been done for the past 100 years. Work responsibilities were separated based on tradition: Robert Hull, Bob’s father, managed the finances and Bob ran the operations. Cattle had to be milked twice each day, and sometimes more often during the peak grazing season. Daily milking at Hull Dairy is a 365 day per year operation, leaving little time for farm expansion planning. When Rob approached Bob about participating in dairy operations, Bob expected that Rob would help with the operational aspect of the farm and fully anticipated that Rob would continue the family custom by doing as he was told and learning the fine art of dairy production exactly as his father had learned from earlier generations. Hull Dairy was in the milk business, and it would stay in the milk business as long as Bob was in charge.

When Rob and his wife, Holly, began working on the farm, the limited profits had to be split among more partners, requiring his grandparents to take a pay cut to provide Rob and Holly with enough money to live. Rob’s grandmother, mother, and Holly worked off farm to help support the families. As Rob and Holly contemplated a variety of diversification strategies, their ideas fell on deaf ears. Bob wasn’t open to change in the same way as the younger generation, and farm management was often determined by a lack of decision-making. Additionally, Rob’s other siblings had moved away and could not understand Rob’s interest in working the insolvent farm. Instead, they saw the real estate value available through land sales as a way to cash out on the family inheritance. The path forward was all uphill.

As with any transition, the emerging partnership between Rob and his father was difficult. Bob was stubborn, having done things a certain way for many years, and had difficulty relinquishing control. Neither man was a strong communicator, and Holly felt that it wasn’t her place to mediate between them. The transition was a slow process that began with sharing simple tasks. In the beginning, Bob did all the milking. After a while, Rob was asked to share responsibility by milking the cows on certain days. Bob maintained control of the irrigation for the first eight years of the partnership, although as he aged, even this responsibility became harder. The finances, however, were more readily transferred, as Robert was ready for full retirement and Bob had little time to take on this added responsibility.

Throughout the transition, Rob and Holly have paid Bob each month toward their future ownership. The price was based on Rob’s parents’ financial needs after retirement, not on any valuation of the business or on the profits being generated. These payments are expected to last the rest of Rob’s parents’ lifetime. The formal ownership transfer was based on a hand shake, with the hope that Rob’s siblings would respect this agreement, but they feared that the contract would be void if something happened to Rob’s parents. Pressure from Rob’s siblings to subdivide the land could leave Rob and Holly without anything to show for their hard work. It took ten years before a formal title transfer could be accomplished.

The Business Plan

When it became clear that the dairy was heading toward financial trouble, Rob and Holly had to make a tough choice. They loved the farm and decided that the family traditions were a valuable part of their own children's inheritance. Through the support of USDA-sponsored educational programs, Rob and Holly began consuming all the knowledge they could access about small-farm diversification strategies. They attended a number of one-day seminars in farm finance and agribusiness through Idaho State University. They attended the Utah Building Farmers Direct Market Track course through Utah State University, where they developed a business plan that allowed them to receive a NRCS equipment grant to expand their business offerings. They are also in the process of completing the Cooperative Extension Master Gardener Program, which has helped the Hull family become environmental stewards and keeps them up to date on new research on successful gardening. These educational programs helped Rob and Holly put together a strategy that they hoped would revitalize the dairy.

These educational agricultural programs provided Holly with a number of innovative ideas for diversifying the farm and adding new, value-added crops to their product line. The challenge lay in the separation between the farm and its consumers. In 2010, Holly approached Bob about setting aside some pasture to grow vegetables. The response, while not exactly negative, left Holly wondering whether the idea would ever be adopted. Six months later, without explicit consent, Rob and Holly plowed and planted an acre of land and the Hulls offered their first consumer-supported agriculture (CSA) program, with a pickup location on the farm. The CSA program brought the Hulls into close contact with their customers, which allowed the family to educate their neighbors about the importance of agriculture and the struggles faced by many small farms. Their CSA customers regularly requested farm tours. Holly, who had always been passionate about flowers, turned the front yard into a botanical paradise. Through personal relationships that developed between the farm and the community, her flower baskets sold out before she even started advertising. The Hulls used the USDA grant to purchase high tunnels to extend their vegetable and flower operations. Rob and Holly have also restored the farm's eighty-year-old barn, which Rob's great-grandfather built in the 1920s, using grants from the National Trust for Historic Preservation and the Idaho Heritage Trust.

In 2009, their co-cop, Dairy Farmers of America, awarded Hull Dairy the "Superior Quality Milk" award and in 2010 the United Dairymen of Idaho honored the farm as a finalist for the 2010 Milk Quality Award. The Hulls' commitment to their animals and their customers has paid off with greater recognition.

Even though the farm has maintained legal and financial independence between their expanding variety of products and services, the Hulls maintain that the dairy is still their main priority. "Cattle must be milked every morning. Carrots can sit in the ground until we find time," says Holly. Although the equipment and vehicles are paid for by the dairy operation and shared between the different ventures, the primary conflict lies in the use of the Hulls' time. "It's only us who uses the farm assets, so we know what needs to be done and when," Holly adds, "But it's hard to get everything done when it is just the two of us." The farm does hire part-time help for harvesting CSA produce during peak seasons. The core reason for the legal separation of farm products rests with liability. "When you are dealing with animal products, food safety is always a key concern." Although the new additions have not yet turned a profit, the financial savings of using on-site manure and other farm inputs has resulted in significant sales growth over the past two years. The Hulls are optimistic that adding the high tunnels and new flower baskets will increase the profitability of their produce business. Their relationships with their customers also provide a competitive advantage and offer a growing market for direct sales. The operations are still split 90/10 with the dairy being the bulk of the business, but with the potential for adding other dairy products to the on-site sales, the Hulls are optimistic about their future.

Communication

While Rob and Holly are still young and plan to work the farm for many years, they have already begun to plan the transition strategy for their twin daughters, Sydney and Shelby. As infants, the twins' first role in the farm was to learn patience while waiting for Holly and Rob to milk the cows. As the years passed, the girls often begged to be included in the evening milking, even though Holly was concerned that the farm responsibilities were too much for the young girls. Both daughters have shown a strong interest in farming and are proud of their accomplishments, such as carrying a full bucket of grain or putting a nipple on a bottle to feed the calves. Holly boasts, "The girls think they have the best life in the world. I am so proud of their commitment and dedication." Sydney and Shelby have already begun to help out with the farm stand and will soon be solely responsible for it.

The Hulls have learned from their previous transition process that the girls are key players in the success of the operation. Rob and Holly's goal is to keep communication channels open through the transition process and to put everything in writing. "We have learned that planning is a key component to a successful transition," say Holly, "and the girls have to have a voice in the decisions that we make." A multigenerational plan is in the works, even though the girls are only eleven. Their parents believe that it is important to maintain an environment that encourages creativity and innovation. As the girls' involvement increases, the Hulls are allowing them to find their own personal niches that will help with the future transition of the business. The girls are still young, but as their interests develop, Rob and Holly want to limit conflict between the sisters and make sure that each girl has a role to play in keeping the farm alive.

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 conversation 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.

Stennes Orchards

Karina Gallardo, Assistant Professor and Extension Specialist,
Washington State University

Background

In 1894, Britanus Stennes emigrated from Norway to the Methow river valley in Okanogan County, about 200 miles northeast of Seattle, Washington, where he founded Stennes Orchards, an operation that has continued for four generations. The business has grown over the past decade by 400% and now consists of 575 acres. Stennes Orchards Inc. is an S corporation that is solely an operating company. The Stennes operation owns about 60% of their orchard properties and leases fifteen others from ten entities, six of which are family owned. Keith Stennes and his sons, Kevin and Mark, manage the business. Keith is the general manager, Mark is the farm operations manager, and Kevin is the financial and marketing manager. Kevin works for the family business on a half-time basis, as he is also the organic sales manager for Chelan Fresh Marketing.

Stennes Orchards Inc. produces several varieties of different fruits. Production includes apples (Honeycrisp, Gala, Golden & Red Delicious, Cameo, Fuji, Braeburn, Granny Smith), pears (Anjou, Bartlett, Bosc, Red Anjou, Concorde, Starkrimson), sweet cherries (Lapin, Early Robin, Sweetheart, Rainier, Santina, Benton, Bing, Skeena, Cristalina, Chelan, Tieton), and pluots, an apricot-plum hybrid (Dapple Dandy, Flavorich, Amber Jewel, Flavor Grenade, Santa Rosa). Approximately 15% of the farm's production is certified organic. The fruit is sold through Chelan Fresh Marketing to wholesale and retail outlets in the United States and exported worldwide.

Keith raised Mark and Kevin on the farm and mentored them to have a love and passion for farming. Both sons double-majored in Business Administration and Tree Fruit Management at Central Washington University and Wenatchee Valley College, respectively. They participated in the business decision making through their high school and college years, which facilitated their transition into management after graduation. Both Kevin and Mark are passionate about growing and adapting the business. They have become Global GAP certified and are utilizing the H2A worker-visa program. They are motivated to keep improving the business for future generations.

Transition Plan

The Stennes transition plan focuses on improving and enlarging the existing operation. When Mark and Kevin joined the business in 2003, the family decided to make Stennes Orchards an S Corporation. Stennes Orchards Inc. has grown from 100 acres in 1999–2003 to 575 acres in 2013. To facilitate expansion, Mark and Kevin started an intensive lease program and have hired key people to manage the new operation.

This business development is possible because of the availability of ideal lease properties as well as multiple purchases by some of the family's LLCs. Keith, Kevin, and Mark own the LLCs in differing percentages and lease the properties to Stennes Orchards Inc. Equipment, labor, and financing are all necessary to assist growth. The Stenneses finance their investments and operating expenses though commercial banks; they have not used any USDA programs or loans. To build human capital for the operations, the Stenneses invest in training programs for their personnel, including funding an educational program for their orchard at Wenatchee Valley College. Mark also practices hands-on training and transfers orchard-related knowledge directly to his crews.

Responsibilities within the Business Framework

Keith manages the general business details for Stennes Orchards, Mark runs the operations and human resources, and Kevin oversees the finances and marketing. Major decisions are based on "management by committee." Day-to-day decisions are left to the individual in charge of the given responsibility. Considerable trust exists among the partners.

Passing Management Skills to the Younger Generation

Keith's philosophy is that if one wants the next generation to be part of the business one needs to give up some control. Initially, it is important to find an appropriate level of responsibility sharing. Keith feels that the next generation should have a voice in the decision-making, and they should be allowed to experiment and learn from their own mistakes. Moreover, Keith feels it's important to provide the younger generation a sense of ownership based on trust and respect. It is noteworthy that Keith asked his sons to obtain business degrees before taking over all or portions of the business management of the operation. He felt that an education in business management would contribute to risk mitigation. Mark believes that his degree in business helps him manage the operation, and he frequently uses the concepts and principles learned in his day-to-day management. For example, Stennes Orchards has both a business and marketing plan. Before venturing into a new lease or purchasing new equipment they conduct a thorough profitability analysis.

Additionally, the Stenneses believe very strongly in keeping communication channels open. Trust and respect are the basis for all business interactions. The family feels that there have been no major issues to overcome since Mark and Kevin became part of the management. They work toward preventing conflicts and come to a consensus and agree on all major decisions. Communicating the transfer of leadership to the workers is essential. It is important that subordinates know from whom the guidance will come and to whom they should report.

Conclusions

The process of estate planning has facilitated an early transfer of ownership. The Stenneses use the services of a Certified Public Accountant (CPA) to help with the financial planning. They would like to make sure they are being "equitable" without necessarily being "equal," since not all of Keith's children are involved in the business. Keith's daughter and her husband are not involved in the business.

The Stenneses' transition strategy is working for them. Their business is growing in an environment of strong family relationships. While some families would prefer that their children gain experience working for other, similar organizations before taking a management position in the family business, they feel that for their specific case the best model is the approach they have used. Their strategy has been to motivate the next generation from a young age, build the love and passion for working at the orchard, give them a sense of ownership and responsibility, and let them take part in the decision-making process. It was important to the family that their sons earn four-year college degrees and return to management positions. Trust and respect are essential elements in their relationship and have prevented conflicts within the business and family.

Westendorf Family Farm

C. Wilson Gray, District Extension Economist and Extension Professor,
University of Idaho

Farm Vision Statement

The farm sustains the family's unity and economic security. It is home base for generations to practice entrepreneurship, as well as the place where we safely live and play together. We value the family farm as a type of vocational school, where members learn to work, dream and think. Here we learn how to deal with life, to handle success and failure, to turn dreams into reality. The farm reflects God's creation and provision. We value land conservation and agricultural stewardship, balancing those with enduring and profitable business opportunities.

Background

The Westendorf family includes parents Jerry and Susan; sons Nick, Jeff, Daniel, and Scott; and their families. The farm is northwest of the town of Shoshone in south-central Idaho. Jerry Westendorf was born in nearby Twin Falls, Idaho. In 1947 the family bought eighty acres near Gooding, Idaho; they lived there or on nearby rented farms until 1981. Jerry attended high school in Gooding, was active in the FFA program, and started working for Ralph Faulkner's sheep and lamb operation in his "spare" time. The income from that job allowed Jerry to start acquiring dairy cows, and he later drove a milk truck at a time when milk was still picked up and delivered to the plant in ten-gallon cans, making the job much more physical than milk hauling is today.

Jerry continued to farm with his parents and in 1976 he married Susan. Nick was born a year later. Three more sons—Jeff, Daniel, and Scott—followed, and the family was complete in 1986. With good commodity prices and ever-increasing farm values, things were looking good. When an adjacent 160-acre farm came up for sale in 1981, Jerry's dad bought it. Newer equipment was also purchased during these good times. When Jerry took over irrigation management on the farm, he converted the land divisions from twenty-eight small plots to eleven larger fields to increase irrigation efficiency. Although the availability of irrigation water had not historically been problematic, largely due to the farm's excellent water rights from the Big Wood and American Falls water districts, Jerry felt the conversion would insure the farm against potential future shortages.

But in 1983, times began to change in farm country; a farm that had been valued at over $228,000 in 1985 was now on the balance sheet as $50,000. Jerry's dad commented that "…it's easier to break one stick than a bundle," so they continued to farm together as a family and Susan took a job in town to help hold things together. With much hard work and "God's grace," they survived those tough years. Jerry bought out his parents' interest in the farm when they retired in 1999.

The two youngest sons, Daniel and Scott, decided that they were not meant to farm and went on to other occupations, although Daniel did work on the farm in the summer of 2002 when Jerry was recuperating from a broken ankle. Jeff stayed on the farm full-time from 2000 to 2005 and then part-time until 2010. Jeff and his wife, Samantha, moved to Boise because of the relative isolation and limited career opportunities in Lincoln County. Jeff is now a firefighter and paramedic.

In his twenties, Nick, the eldest son, went to college and managed an auto dealership. A sixty-hour workweek and the birth of his son eventually led him to look for ways to have more family time and a better pace of life. Nick worked part-time on the farm for a few years, but he and his family returned to the farm full-time in 2008. Jennifer also works off-farm for the Twin Falls police department.

The Transition Plan

The family's current transition plan is informal; Nick and Jennifer are gradually transitioning into managing the operation and Jerry and Susan are in the "letting go" discussion phase of transition. The family has sought legal and financial advice from their attorney and accountant. Other than the sale of a five-acre home site to Nick and Jennifer, resource changes have not been necessary. Nick's current position is as a farm employee, replacing an employee who had been with Jerry's father for many years; Jeff's tenure on the farm from 2000 to 2005 was part of that transition. Although Nick grew up on the farm, he had been gone for twelve years. Since his return, he has been learning about farm operations, from irrigation (flood), cattle, and the feeding operation to types of hay and the cropping rotation. When Nick first returned full-time, Jerry was the boss and Nick was the hired hand. Although Nick's status on paper has not changed, in practice he has taken on more management responsibility. Nick is the third generation on the farm and hopes that he and Jennifer can pass this legacy to a fourth generation.

In the winter of 2011, Susan enrolled in the Building Farmers in the West (BFW) program offered by the University of Idaho Cooperative Extension.[1] The BFW class made Susan aware of the importance of keeping the farm in the family, which would involve joint resources of the parents and their children and mapping the farm's future with perhaps two or three generations living on it and making a living from it. One immediate outcome of her participation in the BFW class was her decision to build a hoop house and raise raspberries. The fruit is currently marketed through Idaho's Bounty and directly to individuals. The Westendorfs may expand their marketing to area farmers' markets in nearby Gooding and Shoshone. They do not currently offer U-Pick sales. In general, the Westendorfs prefer direct marketing their products, including the raspberries, as well as other farm commodities. Hay is put up in small bales (80–100 pounds) and direct marketed for feeding horses, sheep, and goats. Their barley is sold to the Blackcat Feed Mill in Gooding. In addition to the crops, the Westendorfs also have a Hereford cow-calf operation and grow out the calves in their backgrounding facility. The stockers are then sold via the local auction yard or occasionally to a local buyer. In 2006, Nick purchased ten cows, allowing him to build an interest in the beef herd.

Communication

The family is approaching the transitioning process thoughtfully and not rushing into the decisions that must be made. There are a range of issues that need to be worked out, from finances and asset transfers to legal work and managing family relationships. Although Jerry has acknowledged that a transition is necessary, his good health and desire to remain involved have made it challenging for him to "step back." Part of the answer has been continued, reduced involvement with day-to-day farm operations, and his interest in mules has allowed him to maintain his farm connection without as much direct supervision of the operation. Because the farm has been Jerry's entire life's work, the process has been emotional and required maturity to keep moving forward, even though at times there has been a strong desire to quit the process.

In 2006, the Westendorfs did some initial thinking and discussion about what they wanted

[1] Building Farmers in the West is a regional project funded by NIFA-USDA. Information is available on the BFW website at http://buildingfarmersinthewest.org/.

for the farm's future. In 2010—before Susan participated in the BFW class— they put some thoughts down on paper. Susan's participation in the BFW program also encouraged their four sons and their spouses, as well as Jerry and Susan to write a Values Statement outlining how they see the farm and its future and allowing each individual to see the others' perspectives. The family has used the statement to evaluate their decisions. Jerry knows from first-hand experience that beginning the transition process can be difficult and doesn't want the next generation to have to start from scratch.

In general, the three brothers not on the farm have been supportive of Nick's return. Although Jeff had been on the farm earlier, circumstances have prevented him from being permanently involved. There are still some unresolved issues, but they will eventually be resolved as the farm's future and each person's role in the operation are decided. Nick recently wrote to his brothers about his desire to own and operate the land and business. He talked about family unity and his desire for the brothers to use the farm for enterprises, occasional labor, and recreation. Nick referred to his and Jennifer's Values Statement, as well as to what the brothers wrote in theirs. As he listened to his brothers' criticisms, Nick used the Values Statements to clarify his thinking and focus on their goals.

For the Westendorfs, another answer to the problems involved in the transition process has been their strong faith in God. They see the importance of being good and careful stewards of what has been placed in their care and have allowed this shared value to guide them as they continue with the transition process. It was a "leap of faith" for Nick and Jennifer to surrender a lucrative off-farm career and return to an uncertain future. All are confident that their faith will continue to guide the process.

Conclusions

Continuing discussions among Jerry, Susan, and Nick will allow them to develop their plan for transitioning the farm, which they will then take to the other three brothers. Their first priority is to maintain the farm operation, then to evaluate transition options. Several ideas are currently under consideration, including gifting feed and machinery and using equipment without charge. Also in discussion is whether to lease, sell, or have Nick inherit the farm (or some combination). Continuing discussion has allowed Jerry and Susan to become more committed to transferring the operation to Nick and Jennifer. While other family members have raised some concerns over fair versus equal treatment of all, legal and financial advice has reinforced the principle that equal isn't always the fairest way to treat all involved. The present plan is to sell the real estate to Nick and Jennifer via an FSA mortgage and then transfer the machinery and livestock under a separate contract. Jerry and Susan would retain a life interest in their residence and use the farm sale to purchase a second home and accumulate savings that would eventually be the other sons' inheritance.

When asked what they might have done differently given what they know now, Jerry and Susan commented that they would have started thinking about transition much earlier. Additionally, they didn't raise the sons with the idea that they would stay on the farm. If they had, they would have spent more time on "how to farm" from an operator's point of view rather than just getting the chores done. However, they pointed out that there are always issues, and one has to plan and adjust daily to maintain the operation. When asked about the business model for the farm, their perspectives are related to their business and family model. Jerry and Susan value being good stewards and having the farm serve the family, and Nick appreciates a lifestyle that incorporates good values and a wholesome way for him and Jennifer to raise their children.

Wong Farms

Pioneer Railroad Worker to Modern Cotton Corporation

Russell Tronstad, Professor and Extension Specialist, University of Arizona

Background

The Southern Pacific Railroad arrived in Tucson in 1880. Not long afterward, Brian Wong's great-grandfather, a Chinese immigrant working on the railroad, also came to Tucson. Chinese laborers were an invaluable labor force in the railroad-building era of the 1880s, as much of the larger Anglo labor class found employment in mining and agriculture more profitable and congenial (Doolittle, 1999). After working on the railroad, Brian's great-grandfather established a grocery business in downtown Tucson. His son, Bing K. Wong Sr., later took over the business and identified a potential market for his goods in the Marana/Red Rock area north of Tucson. Today's thirty-minute Interstate drive was then an all-day wagon trip, so Bing Sr. began delivering wagonloads of food goods that came in on the train to farmers in the area. As a result of his year-round contact with these farmers through his food deliveries, Bing Sr. became intrigued by farming. He purchased a relatively small farm in 1939 and planted his first crops to different varieties of barley and vegetables. After two unsuccessful years of barley and vegetable crops, he planted his first crop of Pima cotton in 1941. He planted the crop relatively late, so it went into December 1941 before the crop could be harvested.

The late harvest paid off when the Japanese bombed Pearl Harbor on December 7, 1941, and the market for cotton and other agricultural products changed overnight. Traditional export markets were cut off, and the federal government deemed cotton a strategically important commodity for the war effort. The U.S. military used Pima cotton in World War II airplane wing covers, tires, parachutes, and other applications because its fibers are much longer and stronger than those of Upland cotton. Since most of the other farmers in the area had already harvested and sold their cotton, they were not able to benefit—as the Wong family did—from the price spike that followed the declaration of war. Bing Sr. sold his entire crop for over $1 per pound, while most farmers in the area had sold their crops for less than fifteen cents per pound.

Expansion and Contraction Years

The financial gains from selling the entire cotton crop at a high price allowed the Wong family to buy more farmland in the area and further north in Pinal County. By the 1950s, the Wongs had greatly expanded their operation to fields within a 100-mile radius from the original farm for a total of over 50,000 acres of irrigated land. In Chinese culture, the oldest son is expected to lead and direct the next generation of the family, whether the family owns a restaurant or farm. In an effort to lead and manage the burgeoning farmland interests, Bing Sr.'s oldest son, Ralph Sr., purchased an airplane to more easily travel between land holdings.

Despite Ralph Sr.'s best efforts, the operation still experienced significant turmoil. Even in an era of rapid agricultural mechanization, the larger, more spread-out strategy was causing the Wongs to lose money on several of their farms. In 1960, the Wongs sold off their outlying operations and scaled back to their original headquarters outside Marana. The family farm incorporated in 1965, when Bing Sr. was in his early sixties, and his sons bought out his shares shortly thereafter. The Wongs divided up responsibilities among the four brothers during this period; Ralph Sr. led field operations, David and Bing Jr. worked in the office, and Ron (a "latecomer" born in 1958) managed inventory and operations. Bing Jr.'s accounting degree and CPA made him a natural fit for the office. David's degree is in agronomy and Ron's degree is in agribusiness/finance.

Bing Sr. believed that it was best to "sell out" to his sons, but unfortunately, Ron, the youngest of the four boys, remembers the years that followed to the early 1970s as years of great conflict and turmoil for the family farm. Commodity prices were relatively low, and the best direction for the farm was unclear. Annual U.S. cotton prices averaged $0.25 per pound from 1965 to 1972, then rose to an average of $0.58 per pound from 1973 to 1988.

Legal/Lender Challenging Years

In 1988, the Wongs' farm faced a challenge not from low commodity prices but from their lender. During the high-inflation era of the 1970s, the Farm Credit Administration adopted a policy of lending more on collateral rather than on the cash flow of agricultural goods produced. Real estate prices escalated during the 1970s and early 1980s, making it relatively easy for producers to obtain farming loans. The Federal Reserve moved to restrictive monetary policies to combat double-digit inflation in the mid-1980s. As a result, real estate prices and inflation began to decline, but interest rates were still at double-digit levels. These conditions combined with Farm Credit Administration policies resulted in a liquidity crisis for Farm Credit Services. To preserve liquidity for the majority of their accounts, in 1988 the Farm Credit branch servicing Arizona sold the notes from their eight largest accounts to a company in Texas for about $0.80 on the dollar. Unfortunately, the Wongs were among the accounts sold, even though the operation had been scaled back considerably from the 1950s.

Attorneys quickly became involved and advised the Wongs to file for bankruptcy or join a lawsuit to fight the sale. Four of the eight chose to fight it out in court, while the rest (including the Wongs) chose the bankruptcy route. All four entities that went to court eventually liquidated, and two of the entities that filed for bankruptcy were still in bankruptcy more than ten years later. The Wongs were able to emerge from bankruptcy in the early 1990s.

In order for the Wongs' subchapter C Corporation to become liquid again, they had to sell 1,400 acres of land. Fortunately, much of their farmland is within a half-hour commute of the Tucson metropolitan area, so real estate prices were buoyed by development and water rights potential rather than simply farmland value.

A New Era with Water

The Wongs still have approximately 5,000 acres of irrigated land in the Marana area, and the subchapter 11 filing made them take a harder look at where farming was going in the mid-1990s. Central Arizona Project (CAP) water from the Colorado River arrived in southern Arizona around the same time. In 1986, the Arizona Legislature established the Underground Water Storage and Recovery Program, which allowed entities with surplus water to store it underground and withdraw it later. In 1994, the Legislature further defined the recharge program with the Underground Water Storage, Savings, and Replenishment Act. In addition to receiving ground water credits from direct recharge, credits could now be obtained by using surface water rather than pumping from the aquifer on a well with an established water right.

Although Phoenix had been drinking CAP water for years, Tucson's well water was slightly alkaline and CAP water was slightly acidic. Organic material in Tucson's plumbing reacted to the new CAP water and caused uprooted pipe debris, colored water, and even leaking pipes. Tucson voters approved the Water Consumers Protection Act in 1995 to prevent CAP water from being piped directly to homes. To meet requirements of the Act, Tucson Water developed the Central Avra Valley Storage and Recovery Project (CAVSRP) to recover a blend of Colorado River water and groundwater.

CAVSRP provided an opportunity for the Wongs to diversify their revenue from agriculture by receiving compensation for water conveyance through their ditch and running the pilot recharge facility. Although the site has remote monitoring, it is more economical for Tucson Water and the Arizona Department of Water Resources to hire the Wongs to change water gates and valves than send a Department employee to make the change.

Since the 1994 Replenishment Act allowed entities to receive water credit for using CAP water rather than pumping well water and the 1995 Water Consumer Protection Act prohibited the direct use of CAP water for residential water, farmers in the Marana area were being encouraged to utilize CAP water through a lower pricing structure. Tucson Water received some immediate return from selling water at a reduced rate to farmers in the area, but they received no payment for the water that went to direct recharge, even though both recharge methods built credit for water that could later be withdrawn and sold to residential customers. While indirect recharge through irrigation accrues groundwater credits at a lower rate, it nonetheless greatly expanded the recharging capacity for Tucson to utilize its CAP allocation of Colorado River water.

With Tucson looking to use their CAP allocation fully, the Wongs and other farmers in the area made the switch from well to CAP water for irrigation because the “blend price” made it profitable for them to stop pumping from their wells and switch to CAP water. CAP water also allowed them to flood irrigate with larger heads of water and cover a larger area over a limited time span, reducing some of their labor and crop water constraints.

The Wongs have served on the advisory board of the Agricultural Research Service over many years. In conjunction with the University of Arizona, they have tried many different experimental crops, from algae and guayule to a special type of tumbleweed with potential for making fire logs. Although the Wongs have not planted Pima cotton for several years, Upland cotton still accounts for about 70% of their crop acreage mix. Wheat, a good rotation crop, makes up the rest of their remaining crop mix. In 2013, they planted a small amount of organic wheat with cooperation and encouragement from Native Seeds/Search. The hand weeding has been costly for them, so they doubt that they will plant more organic wheat until they can better address the weed issues.

Fourth-Generation Leadership

Managing the Wong family corporation has always been a big responsibility. Brian, a recent graduate of the Department of Agricultural and Resource Economics at the University of Arizona, was recently elected president by the Board of Directors, replacing Bing Sr. At the age of fifty-four, Ron argued to the Board that it was an appropriate time to bring the next generation into management. Ron feels that he will be able to assist Brian better in the next ten years than if they has waited another five to ten years to transition. Even though family members own all shares of the

company, communicating aspects of running the farm can be more difficult now because the majority of the shares are held by nonworking owners. Even though Brian is president, he doesn't own any shares.

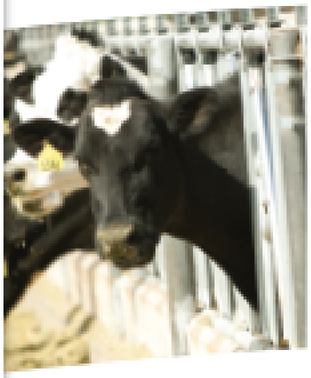
Brian's service on the board of the Citizens Water Advisory Committee (CWAC) has helped prepare him for his tenure as president. This committee oversees the rate-making structure for Tucson Water, which has a $150 million annual budget. The way that CWAC analyzes numbers and the organizational structure of Tucson Water provided a management experience not obtainable in the classroom or even by running a farm operation.

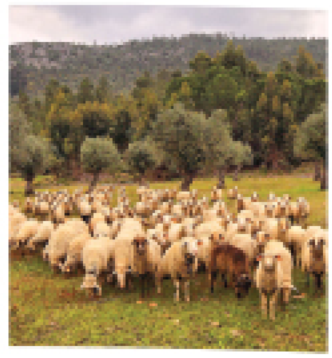
Farming pays the bills, but the Wongs also acknowledge that they must live up to a significant legacy. Members of the family often run into members of the Tohono O'odham Nation who know the Wong family by name and reputation. When Ron's father was in the grocery business and times were tough for employment, the Wongs extended loans to Tohono O'odham members to buy groceries. Families that were unable to pay back their loans in cash worked on the farm to pay it off. The Wongs hired many workers to pick cotton for $5 day. Tohono O'odham families today remind the Wongs that their family provided kindness and food when they were in great need and many others did not. They are grateful for what earlier generations of Wongs did for their families. Upholding the Wong name is part of transitioning the family farm to future generations.

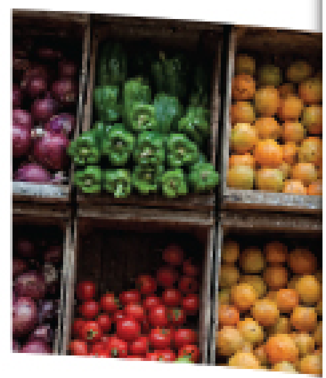
References

Arizona Experience, "The Pima Cotton Boom." Online reference to commemorate 100 years of statehood. Available online at http://arizonaexperience.org/remember/pima-cotton-boom.

Doolittle, John T., Hon. "Chinese-American Contribution to Transcontinental Railroad," Testimony to the Udoolitte.S. House of Representatives, April 29, 1999. Available online at http://cprr.org/Museum/Chinese.html.







Utah State University is an affirmative action/equal opportunity institution
This publication was funded through a grant from the
USDA Office of Advocacy and Outreach