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# Profiles of Successful Farm Transfers on Long Island

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## Foreword

Suffolk County, Long Island has a diverse agricultural base and ranks first in the state for gross receipts from the sale of agricultural products. The region supports numerous wineries, greenhouses, nurseries, vegetable farms, and other assorted agricultural enterprises. Proximity to markets, ample water supplies, and excellent growing conditions make Long Island an excellent location to operate an agriculture-based business.

Many farmers often delay farm transfer to the next generation for a number of reasons. Some farmers believe that a transfer will be complex and limit their options to be actively involved in the farm business. When valuable real estate is involved, some farmers feel that a farm business sale is the only way to resolve retirement planning issues. All farm examples in this publication are located on Long Island, where land values are significantly higher than other locations in the state. Choosing farms with high asset values that successfully completed transfer plans illustrates that farm businesses can remain profitable after a business transfer.

Funding for this project was provided by a grant from the New York Farm Viability Institute. Developing a concentrated farm business planning and transfer process on Long Island was a need identified by a focus group comprised of farmers, agri-business, and Cornell Cooperative Extension. Prior to beginning the NY FarmNet Farm Business Planning and Transfer project, approximately ten percent of farmers on Long Island followed through on their farm business transfer and estate planning. During NY FarmNet's project, approximately 80 percent of farms requesting farm and estate planning assistance followed through on their farm transfer and estate plan.

Sixty-seven farms completed plans for their business to continue with the next generation of farmers. Most participating farms transferred the farm business to a family member. However, two farms sold business assets to non-family members. If succession plans were not in place, these farms would have sold to developers. In one case, the new owner planned a significant expansion. Specific farm information was supplied by families in this publication, with their permission.

All farms participating planned on remaining in production with plans for the next generation to assume management and ownership. A total of 1,295 acres were preserved via this project, and 244 jobs were preserved or created. Moreover, additional farm receipts totaled \$4.7 million annually.

NY FarmNet consultants Ralph Freeman, Bill Sanok, and Jim Ashton provided technical assistance to farm families seeking business transfer guidance. Attorney Jeff Fetter worked with farm families to finalize their plans for implementation. In addition, Dale Grossman, Senior Lecturer, J.D., in the Charles H. Dyson School of Applied Economics and Management at Cornell University provided valuable editing suggestions.

## Glossary of Commonly Used Estate Planning Terms

**Administrator** – An individual identified by the court to distribute and manage an estate in the absence of a will.

**Annual Exclusion** – A value of property the Internal Revenue Service allows one individual to give to another during a calendar year that is not subject to gift tax. The annual exclusion is currently \$13,000 and one can give this amount to an unlimited number of individuals each year.

**Basis** – The original value of property, which is used to determine profit or loss when selling property. Basis is frequently the original cost of property plus improvements.

**Buy-Sell Agreement** – A legally binding agreement that establishes terms and conditions for one business owner to purchase the business from another owner.

**Codicil** – A modification in an existing will.

**Conservator** – A court appointed person who is legally responsible for managing funds or property belonging to either an incompetent person or minor.

**Decedent** – One who has died.

**Durable Power of Attorney** – A legal document giving a person the authority to handle financial and other concerns of the property owner. This power will not terminate upon the disability of the individual granting such authorization.

**Estate** – A compilation of assets owned by an individual at the time of their death. Liabilities are also included in an estate.

**Executor** – A person identified in a will to manage an estate. An identified female is an executrix.

**Fiduciary** – An individual who has power to responsibly act on behalf of another. This term is used in place of trustee.

**Grantor**- A person who transfers assets into a trust they created.

**Heir** – A person who inherits property.

**Intestate** – One who dies without a valid will. In such a case, New York State will determine how an estate is divided among heirs.

**Irrevocable Trust** – A trust that cannot be modified in any way or revoked after being enacted.

**Joint Tenancy with Right of Survivorship**– When two or more individuals own property and provide that the survivors inherit the share of a tenant who dies.

**Living Will** – A document stating one’s preferences with regard to artificially sustaining life by medical technologies. One may define which technologies could be used.

**Marital Deduction** – A federal gift and estate tax unlimited deduction for property passing to a spouse.

**Pour Over Will** – A will that passes title at death to property not transferred into a revocable trust during one’s lifetime.

**Probate** – A legal process supervised by the court to distribute property according to a will, or state law in the absence of a will.

**Qualified Terminable Interest Property** – A marital trust that names the surviving spouse as the sole beneficiary; with the right to receive all income produced by the trust, ensuring the use of one’s marital deduction.

**Revocable Trust** – A trust giving its grantor the right to amend or terminate.

**Special Needs Trust** – A trust set up for a disabled individual that limits trust assets to the beneficiary’s basic needs and care. This trust is established to allow for government financial aid.

**Succession Plan** – A plan for transferring business ownership and management to another individual, allowing for business continuity.

**Tenancy in Common** – When two or more individuals own property and each may distribute his/her share of property by will, rather than inheritance by the survivors.

**Testator** – One who makes and executes a will.

**Trust** – An instrument that allows property to be managed for the benefit of another individual.

**Will** – A recorded instrument that identifies beneficiaries who inherit a testator’s assets. In addition, this instrument also names an executor to distribute assets to beneficiaries, as well as a guardian for one’s minor children, if necessary.

## **Getting Started**

When developing an estate and farm business transfer plan, an initial resource to review is information from the Internal Revenue Service. Their web site has an extensive list of rules and regulations on estate planning issues. For more information, go to <http://www.irs.gov/businesses/small/article/0,,id=108143,00.html>.

Farm estates may exceed the value where the unified credit does not cover the value of one's estate, thus creating a potential estate tax situation. Unified credits for estate and gift taxes effectively exempted \$1,000,000 from gift taxes and \$3,500,000 from estate taxes in 2009. During 2010, there is no estate tax; however, transferred assets will retain the decedent's basis, possibly resulting in significant capital gain if sold after death. For example, if the senior generation bought their present farm for \$200 an acre, and it is now worth \$2,000 per acre, the basis would remain at \$200 per acre instead of being "stepped up" to reflect the present worth of \$2,000 per acre when the estate passes to the next generation via will. Basis is utilized when determining gain from the sale of an asset. In the aforementioned example, the gain for tax purposes would be \$1,800 per acre. This is calculated by subtracting the original purchase price from the current market value.

There are various estate tax revisions currently under consideration by Congress, as estate tax is scheduled to return to 2001 levels in 2011, reducing the exemption from estate tax to \$1,000,000. Some in Congress are advocating a return to 2009 estate taxation guidelines.

## **Bringing in the Next Generation**

Many successful farm business transfers involve transferring management responsibilities over time, as well as business equity. After an initial evaluation period, the senior generation may offer the junior generation an equity stake in the farm business. Creating a partnership, corporation, or limited liability company provides a means to identify and transfer property ownership in a farm business. Such business entities also allow for periodic or gradual transfer of assets via shares or a partnership percentage.

Providing a means for the incoming generation to gain equity over time is a measure taken by many farms in the transfer process. Current Internal Revenue Service rules allow for gifting of up to \$13,000 per person annually to be excluded from gift tax. For example, a husband and wife who own a farm can individually give \$13,000 to each of their children before utilizing any offset from the unified gift tax credit. Spouses can gift each other an unlimited amount.

Another element to include in any business agreement is a buy-sell provision or buyout agreement. Such an instrument is a contract between business owners that covers such areas as what triggers a buyout, the purchase price of the business, and who is

eligible to buy an owner's business share. Events that trigger a buyout could be retirement of one partner, death, disability or incapacity, personal bankruptcy, and divorce. Creating a buyout agreement well before the time it is needed can preserve business continuity and avoid costly court battles to settle an estate upon the death of a partner.

## **Business Structure Examples**

### **Sole Proprietorship**

A sole proprietorship is the least complex business structure if there is only one business owner. There are no formal legal requirements to create a sole proprietorship, but separate business records should still be kept by sole proprietors for management, as well as tax purposes. Setting up a separate business bank account facilitates accurate business record keeping and is also helpful, should the IRS choose to audit the farm business. An auditor will like to see separate business and personal bank accounts for review purposes, in addition to demonstrating an intent to operate the farm as a business and not as a hobby.

Although many sole proprietorship factors are positive, namely simplicity in operations and management, there are some drawbacks to operating as a sole proprietorship. Such business owners are also personally liable for business debts, and also for liabilities resulting from employees. Moreover, an individual's assets are at risk in the case of lawsuits. Another drawback may arise in attracting employees who would like to own part of the farm business.

### **Partnership**

Partnerships are formed when two or more individuals join together to operate a business. This structure is taxed in the same manner as a sole proprietorship, where each partner reports his or her share of business income or loss resulting from the partnership. Each state has statutes governing partnerships. To access the NYS Uniform Partnership Law, go to <http://public.leginfo.state.ny.us/LAWSSEAF.cgi?QUERYTYPE=LAWS+&QUERYDATA=@LLPTR+&LIST=LAW+&BROWSER=BROWSER+&TOKEN=37727426+&TARGET=VIEW>.

An advantage of a partnership is that it is a simplified structure for two or more business owners to jointly conduct business with minimal maintenance efforts. A drawback is that partners also share unlimited liability for partnership activities. Moreover, partners' personal assets are also at risk, as in a sole proprietorship.

Creating a written partnership agreement with another person is critical before one enters into a business arrangement. An agreement may include such topics as management responsibilities, process for bringing another partner into the business,

resolving disputes, and death or withdrawal of a partner. Identifying specific management responsibilities will reduce the potential for disagreements. Areas such as supervising employees, record keeping, and negotiating with machinery and other suppliers are examples of specific management responsibilities.

An agreement should also identify specific contributions to the farm business, such as cash, equipment, livestock, or real estate. In addition, a partnership may decide how to allocate profits among partners. Partners have flexibility on how to divide profits and losses in the business. Unless they provide otherwise by agreement, partnership law provides profits and losses should be shared equally.

Outlining how to dissolve a partnership in an agreement is equally as important as defining a process for entering into a partnership. Terms for a buyout of partners leaving the farm business should be included in a dissolution process. Such an agreement is often termed a buy-sell agreement. Within the agreement is a process for determining the value of a partner's contribution to a business.

### **Limited Liability Company**

For individual business members that want to protect personal assets from business liabilities, an LLC offers such an opportunity. This does not mean an owner will never be liable. However, an LLC owner is liable for any intentional wrong-doing that is illegal and presents harm to the company. If a business owner personally guarantees a business obligation, he or she is personally liable. Moreover, if a business owner intentionally fails to deposit taxes withheld from employees, he or she could be personally liable.

Profits and losses from an LLC pass through to owners, and information is reported to the IRS in the same manner as a sole proprietorship or partnership. Compared to a partnership, forming an LLC is slightly more complex and there are statutory requirements that must be met. However, operating an LLC is less difficult than operating a corporation. Developing an operating agreement is an essential means to define each owner's percentage in the LLC, sharing of profits, and business succession issues if a member retires or leaves the business.

Most LLC are operated with member management, where LLC members share equally in management. However, LLCs can have a manager managed structure. In this arrangement, one or more owners are designated to manage the business. Other non-managing owners share in profits, but are not able to vote on management decisions. Rewarding a family member who has invested in the business is an example where setting up a manager managed LLC is beneficial to everyone involved.

Creating an llc is accomplished by filing appropriate paperwork with New York State's Division of Corporations. A broad list of resources is available online from the state. One may access the list at [http://www.dos.state.ny.us/corps/dom\\_llcfile.html](http://www.dos.state.ny.us/corps/dom_llcfile.html).

New York State's guide to forming a Limited Liability Company is available at <http://www.dos.state.ny.us/corps/llcguide.html>. Before filing paperwork, one should do a search of existing business names to ensure their new company does not have a similar name with an existing business entity. New York State has an online search for business names at [http://www.dos.state.ny.us/corps/bus\\_entity\\_search.html](http://www.dos.state.ny.us/corps/bus_entity_search.html). Once one has determined that a business name is available, the next step involves filing Articles of Organization with New York State. A printable form is found at <http://www.dos.state.ny.us/forms/corporations/1336.pdf>.

Property transfer is more easily accomplished in LLCs and corporations. Ownership transfer can be accomplished by purchasing or transferring shares. Since no property sale or transfer is recognized at the county level, this event has the potential for keeping assessments from rising as in a sale, where a price is listed.

A competent attorney should be utilized when forming any business structure. Utilizing the aforementioned resources when forming a business can add focus to one's efforts, but not does not replace the need for legal services. Understanding logistics is critical; however, having full agreement and understanding among business owners is an essential step before meeting with an attorney to finalize business plans.

### **C Corporation**

For business owners who would like to retain profits for future business expansion, a C Corporation may be worth evaluating. In the case of some business owners, corporate income tax rates may be lower than personal marginal income tax rates for a corresponding amount of income. Business owners working for the corporation pay income taxes on salaries and bonuses. However, business owners are not taxed on fringe benefits. A corporation can deduct the cost of benefits as a business expense.

Double taxation occurs when a corporation distributes dividends to owners, who are liable for personal income tax on any dividends. In addition, the corporation also pays tax on any dividends. Many smaller corporations avoid such tax by only paying salaries and bonuses. To pay taxes as a C Corporation, businesses must file IRS Form 1120, available at <http://www.irs.gov/pub/irs-pdf/f1120.pdf>.

### **Subchapter S Corporation**

One may elect to have a corporation taxed as a Subchapter S corporation. Such a corporation also provides limited liability to owners and derives its name from Internal

Revenue Code Section 1361, Subchapter S. For more information on Internal Revenue Code, utilize the following link:

<http://www.taxalmanac.org/index.php/Sec. 1361. S corporation defined>.

One reason for forming an S Corporation is for tax treatment. Income is taxed at the individual level, as opposed to the corporate level in a C Corporation. Shareholders receive payments by the corporation that are distributed tax free. However, all income, tax credits, and deductions flow through to shareholders each year even if distributions are not made. Many existing S Corporations have been replaced by LLCs. An advantage of an S Corporation over an LLC is that shareholders are not subject to self employment taxes as active LLC owners are. However, tax is paid on benefits, and if there is a profit, employees must be compensated.

Another reason for forming an S corporation is to limit owner's liabilities. Many individuals want their personal assets separated from business assets.

Finalizing S Corporation status involves all shareholders signing and filing IRS Form 2553. New York State has a resource available about forming a business corporation at <http://www.dos.state.ny.us/corps/busguide.html>.

### **Hybird Business Structure Combinations**

Some farm business owners may want to employ multiple business structures to implement their management plans, separate ownership, and further limit liability. A dairy farm can operate under two different business structures. For example, there could be a cropping enterprise LLC that sells feed to a dairy LLC. This structure will accurately know the cost of producing feed, as well as costs specifically allocated to the dairy enterprise. Different individuals could take the lead in running each operation, and different ownership percentages could arise.

Another structure may be created by combining a management LLC with the business LLC. The business LLC typically holds management harmless for business operations. Doing so further limits liability. Transferring business assets into an LLC and utilizing a Subchapter S corporation to manage the business is another means to limit liability.

## **Factors of Successful Farm Business Transfers Observed During the Long Island Project**

- Involve the junior generation in the business early on by delegating management responsibilities from the senior generation.
- Increase management responsibilities when the junior generation demonstrates their management abilities.
- Conduct routine business meetings.
- Develop job descriptions for everyone involved in the farm business.
- Having a profitable business with opportunities for increased revenue growth will entice the junior generation to grow the business.
- Allow the junior generation to succeed with new ideas, as well as fail when changes take place.
- Create a positive work environment between management and employees that will allow for business succession.
- Put a time line in place for business transfer and communicating the timeline to the junior generation.
- Enlist outside assistance to facilitate business transfer.
- Employ a multitude of planning tools to facilitate an effective business transfer.
- Periodically review one's plan to make changes when necessary.

## **Farm Transfer Insights from Dr. George Conneman, Emeritus Professor, Charles H. Dyson School of Applied Economics and Management at Cornell University**

- Management responsibilities need to be transferred before assets.
- A third neutral party probably needs to be involved to help facilitate the process.
- Timely transfer is a must. A date to end the process is a necessity.
- Compromise, trust, respect, ability to work with others is required. Don't take advantage of the other party.
- Involve everyone in family from the very beginning.
- Businesslike methods need to be utilized at all stages of the transition process.
- Good communication involves both talking and listening.
- In the vast majority of cases, significant outside work experience is a prerequisite to a healthy career in the family business.
- Business owners can rarely retire "cold turkey" – they need five years to prepare and substantial interests outside the business to look forward to.
- No succession plan is complete until the parents transfer voting control to the next generation. The surprise return of a once-retired business owner is frightfully common.

## **Business Succession Planning at CJ Van Bourgondien Inc.**

Bob and Mark Van Bourgondien are part of CJ Van Bourgondien Inc., a third generation wholesale greenhouse operation located in Peconic, NY. Many family members are involved in the business, and the senior generation is active in daily business activities. In addition to family members, CJ Van Bourgondien Inc. employs 8 to 12 workers throughout the year. The business foot print comprises six acres, with three acres under glass. Additional land owned by the business is rented to a neighboring sod farm.

Dramatic property value increases have made farm business succession and transfer challenging for growers such as the Van Bourgondiens. Some farm families view the process of farm transfer to the next generation as too complex, and are reluctant to develop a business succession plan. Others feel that land values approaching \$100,000 per acre warrant selling land for potential development. However, Bob and Mark wanted to see their business remain in agriculture and contacted NY FarmNet to create an opportunity for their business to be better prepared for a potential future transfer.



*Mark Van Bourgondien shows some of his many products.*

To begin developing a plan for the future, NY FarmNet consultants examined issues pertinent to long term business viability. Consultants worked with the entire business staff on internal communication issues. Once this long term project made considerable progress, the next step of bringing in an attorney to formalize business issues could take place.

An attorney from Syracuse worked with the Van Bourgondiens on a variety of business issues. Business continuity was a key objective in developing a succession plan. To ensure that key management would have control of major business issues, a buy sell agreement was put in place between Mark and Bob. This agreement is funded by life insurance to provide adequate funding for either partner to purchase the other's business assets upon time of death. A primary objective of the buy sell agreement is to insure business succession. Valuing business stock is a necessary step to determine the amount of insurance coverage needed for a buyout.

Having an appropriate business structure is paramount for effective farm business transfer. C J Van Bourgondien's land is being placed in an S corporation, which represents a change from a C corporation. Transferring or selling property is more complex when one's business is organized as a C corporation. A specified waiting period must take place for the transition to be in place between the S and C corporation. This transition will remove taxation of corporation profits and dividends, as S corporations pass profits through to shareholders.

The next planning phase involves valuing business stock. Additional planning tools such as trusts, and forming an LLC for another parcel of land not attached to the business will also take place.

Both Bob and Mark place a high value on developing and implementing a plan for business continuity. Their advice to fellow farmers is, "Get started soon".

## Estate Planning Allows for Smooth Transition to New Owner

Richard Girards owns and operates Flora Nursery, a producer of hydroponic tomatoes branded under the Flora name. His business has been in operation since 1970, and Girards wanted to develop a plan that would make his business marketable to a new owner. NY FarmNet consultant Ralph Freeman met with Girards to develop a plan for business succession.



*Richard Girards discusses plant health issues.*

Changes made to Flora Nursery involved separating the real estate and business to allow a new owner to take over the core business, without having to purchase costly real estate. Transferring real estate into an LLC was recommended to reduce liability and allow for business continuity. Once the transfer took place, LLC shares were placed into a trust to preserve assets. Planning was complex and took approximately two years to facilitate. In addition to business planning, Girards also updated his will to reflect business changes.

Dividing assets into two entities makes it possible for Girards to market his business to a new potential owner. One could purchase shares of stock to own the tomato production business without purchasing shares of expensive real estate. There is a potential interest in purchasing Flora Nursery, with plans on expanding production. A well written succession plan can provide a foundation for business transfer to a family member or a new owner outside of the family, as in Girards' case.

Business succession planning efforts are paying off for Girards. He was contacted by an individual interested in purchasing the business, with plans for expansion.

## Planning is a Continuous Process at David Rose Perennials

Peter Harbes' farm supplies a variety of high quality perennials to garden centers in a 150 mile radius from Laurel, NY. He prides his business on offering high quality products and service to a multitude of customers. Bar coding identifies various orders and is a useful tool for inventory management. Customers receive their orders on carts, to facilitate easy unloading.

Planning for business continuity at David Rose Perennials began over 15 years ago by Peter's parents. Businesses change over time, and plans need to be reviewed on a regular basis. For example, Harbes' farm was initially a potato farm, and transitioned to growing cabbage. Utilizing information specific to a potato farm may not accomplish business succession planning goals for a perennial supplier.



*Peter Harbes demonstrates inventory management technology via product labels.*

Business structure is critical to effective succession planning, and Harbes' business utilizes an S corporation structure. Transferring business ownership via corporation stock is less cumbersome than transferring property held as a sole proprietorship. Written agreements among stockholders are also a component of ensuring business succession. Formulas to determine stock value are reviewed each spring with the assistance of professionals. Outside professionals are crucial in developing a business succession plan. Enlisting the services of a competent attorney is critical to developing and implementing an effective business succession plan.

Other outside assistance in developing a long range plan for David Rose Perennials came from Ralph Freeman, NY FarmNet consultant. Harbes believes that obtaining ideas for business issues from other sources is beneficial. He commented that, "Ralph has always been a great asset."

## Succession Planning at Bianchi-Davis Greenhouses Inc.

Although business succession usually involves an intergenerational transfer, some agricultural business succession plans involve non-family members. Mark Davis and Bill Bianchi started their greenhouse business ten years ago in a rented facility in Patchogue. Through hard work and growing a high quality product, business growth dictated the need for a more efficient facility. Bianchi and Davis identified a suitable site near Riverhead, and worked with the Peconic Land Trust to secure land for their present business.



*Bill Bianchi and Mark Davis overlook their premium orchids.*

Planning for a new production facility took considerable effort; however, planning for business continuity was an equal priority. Bill Bianchi and his father operated a successful green house, but Bill was not able to buy into the business. This experience reinforced the need to start planning for business succession early in any business arrangement.

Bill and Mark enlisted the assistance of NY FarmNet to ensure the continuation of Bianchi-Davis Greenhouses. A NY FarmNet financial consultant helped organize a business/succession plan that provides a mechanism for Mark to purchase the business at a formula based price via a buy sell agreement. An attorney formalized the succession plan and included multiple business structures to limit liability and allow for business continuity. A key outcome of having a comprehensive business/succession plan is that Bianchi-Davis Greenhouses Inc. is confident in the future and undertook a 25,000 square foot greenhouse expansion.

## **Change is Constant at Phillip A. Schmitt and Son Farm, Inc.**

Phillip A. Schmitt and Son Farm, Inc. is a fourth generation family vegetable farm located on Riverhead, Long Island. The Schmitt's moved their production to Riverhead in 1978, as development pressure from the west end of Long Island made operating a farm increasingly challenging. Three generations are presently involved with the farm business that grows leafy greens, assorted vegetables, and cut flowers. A significant amount of the farm's produce is sold locally to other farm stands on the island. In addition to vegetables, the farm also sells cut flowers, which is an enterprises started by Phil Schmitt Jr.'s wife, Deb.

Acreage devoted to cut flower production has been expanding over the last ten plus years. Deb began growing cut flowers in 1997 on 1/8 of an acre. Today, the flower enterprise has increased to 10 acres. Deb sells some of her flowers on the farm and also provides bouquets to farm stands and restaurants. She also creates flower arrangements for weddings, graduations, and other events.

Another evolution at Phillip A. Schmitt and Son Farm, Inc. is the manner in which their products are marketed. The Schmitts have a wholesale business that supplies produce to local stands, in addition to operating their own farm stand. They also sell produce to local restaurants and have an account with King Kullen, a large supermarket on Long Island. A major change undertaken two years ago, was adding a packing line to package leafy greens. This enterprise is expanding to produce another product - packaged coleslaw.



*Phil Schmitt displays a new product line of packaged greens.*

Operating a diversified vegetable farm on Long Island is extremely challenging; however, transferring such a farm also presents a challenge. Highly appreciated real estate requires careful planning, and the Schmitts have hired attorney Jeff Fetter to develop effective estate/transfer plans. All of the land is owned by Phil Sr. Phil Jr. owns all machinery and structures associated with the business. Phil Jr. and Deb's son, Matt would also like to be part of the management team. Developing a transfer plan to accomplish objectives of three Schmitt generations presents an opportunity for the farm business to remain operating and continue exploring new ways of doing business.

An initial step in transferring the farm was for the attorney to examine existing wills. Many wills are developed and then put away without periodic review. Attorney Jeff Fetter revised the Schmitt's wills to reflect present circumstances. In addition, he set up limited liability companies for the farm's enterprises, including the packing line, to limit liability to a specific business enterprise. Another component of the Schmitt's estate/transfer plan is the use of trusts in wills. Probate may be a lengthy process, and utilizing an appropriate trust facilitates asset transfer when one's will goes through probate.

Although the Schmitts are still in an extensive estate/transfer planning process, they believe that one can never start the planning process too early. Transferring management and ownership is a lengthy process that is necessary for a farm to remain viable.

## **Business Transition at Kawasaki Greenhouses, Inc.**

Craig and Carol Kawasaki established Kawasaki Greenhouses, Inc. in 1984. Craig, a fourth generation grower had a degree in business and marketing, and decided to apply it in the industry that he knew best. After managing his family business for 12 years, and unable to acquire ownership via purchasing an interest in it, he and Carol decided to start their own business. The result was a company that prides itself in quality grown products for retail florists and garden centers.

Fifteen years ago, George Sheehan, their son-in-law, expressed an interest in working for the family business when an opening occurred. George had relevant business experience in sales outside the greenhouse industry, and wanted to apply his skills in another area. His desire to sell something he believed in was a factor in wanting to be a part of Kawasaki Greenhouses, Inc. His dedication and skills have resulted in a broadened customer base throughout the tri-state area.

George's wife, Cristina Kawasaki decided to return to the family business in the year 2000, after successfully working in a career outside the industry, since graduating college. Cristina is now Vice-President and part owner of the corporation. She is responsible for production planning, purchasing and new product development in their ever-changing business.



*Inside Kawasaki Greenhouses, Inc.*

Although Kawasaki Greenhouses began as a grower of indoor foliage plants geared to the retail florist market, it has expanded into a grower of a variety of spring annuals, tropicals and vegetables for sale to garden centers, re-wholesalers and landscapers throughout the tri-state region. Sales are concentrated in spring, as demand from

garden centers ramps up with increased consumer demand. This is a departure from supplying year round foliage.

Kawasaki's business plan is under revision to compliment the business transfer process. Craig Kawasaki has known Ralph Freeman, NY Farm Net financial consultant professionally since 1972. Ralph is currently providing assistance as Kawasaki Greenhouses, Inc. adjusts their business plan to allow for the eventual transfer to Cristina and her husband George. Having an up-to-date business plan is an essential component of any successful business transfer.

Mr. Freeman introduced Craig and Carol Kawasaki to an upstate attorney, who is developing a customized business transfer plan to the next generation. Their daughter, Cristina has already been issued shares with the legal assistance of Mr. Fetter. It is estimated to take approximately six months to complete a business transfer plan that is ready to be implemented. The Kawasaki family firmly believes that the next generation must have a stake in the business in order to positively contribute to its continued success and longevity.

## Dairy Farming in the Hamptons

Arthur and Stacy Ludlow are fourth generation farmers on Eastern Long Island. They grew potatoes with Art's brother until ten years ago and decided that they needed to make changes to improve long term farm viability and connect with consumers. A cheese making hobby that began in the early 1990's with the gift of a Jersey cow from one of Stacy's friends eventually led to the creation of Mecox Bay Dairy. Cows are now milked in an area converted from a former potato storage barn, with an adjoining cheese making facility.

Before the Ludlows began selling cheese commercially, Art took five cheese making workshops to learn more about turning milk into high quality cheese. All Mecox Bay Dairy cheese is produced from raw milk and aged at least two months. The dairy currently produces five styles of cheese - a washed rind tomme, a natural rind tomme, a soft ripened white/gray rind cheese, and a gruyere style cheese. All milk produced on the farm is utilized for cheese production.

Operating a dairy and cheese making facility requires a significant number of health inspections. A proactive measure to ensure its cattle remain healthy, Mecox Bay Dairy voluntarily enrolled in the New York State Cattle Health Assurance Program, sponsored by the New York State Department of Agriculture and Markets. A New York State inspector was the first to inform the Ludlows about NY FarmNet by giving them a brochure about NY FarmNet's services. Stacy contacted NY FarmNet for business planning and management, as her son Peter was graduating from college and wanted to be involved in the farm business.



*NY FarmNet consultant Bill Sanok with two generations of the Ludlow Family.*

NY FarmNet consultants Ralph Freeman and Bill Sanok met with the Ludlows to identify business priorities and begin developing a means to incorporate the next generation into the farm business. An attorney is helping the Ludlows evaluate options to integrate

Peter into the farm business, should he express interest. Developing new business enterprises for the next generation to operate and manage is an option. In addition, another brother John is also interested in farming.

The next generation of farmers often brings new ideas to an existing farm business, and Peter is expanding the farm by raising pastured poultry. This enterprise compliments other facets of Mecox Bay Dairy, which currently produces turkeys, pigs, and veal calves. Future plans for Peter include learning more about cheese making by taking courses. All Ludlows are optimistic about future opportunities and continue to make progress on their business plan. They believe that having a shared vision is paramount to business success.

## Old Fashioned Family Fun at Benner's Farm

Over thirty years ago, Bob and Jean Benner moved their young family from a harbor side home in Northport to a neglected and overgrown farm in Setauket. The Benner's, the seventh family to own the farm, which was five times owned and run as a family farm and once a commercial chicken venture, bought it from the Bryant family matriarch who wanted to see another family on the land. There were many old vehicles on the property, and fields had become overgrown with small trees and vines as the farm was in a sad state of disrepair and every building needed attention. She probably would never have imagined how the farm would be transformed.

The Benner's farmed organically and self-sufficiently for several years while cleaning up and repairing the barn and out buildings, fencing, planting and acquiring a variety of farm animals; learning as they went. Bob and Jean, both educators, soon invited classes of children to the farm, to share their experiences and new-found skills.

Those initial visits have expanded to include birthday parties, concerts, film showings, and homestead arts demonstrations. A variety of after school courses and workshops run in the spring and fall. In addition, a popular Spring camp, Spring Break on the Farm, and a Summer Day Camp give kids an opportunity to acquire skills such as starting seeds for a garden, making crafts, as well as participating in farm chores. Weekend farm visitors can see a variety of animals and learn how crops are grown. A significant amount of produce grown on the farm is utilized for special events, with set admission prices. The remainder is sold on premises at "The Little Store" on the farm.



*Artist rendering of Benner's Farm*

Three decades have brought considerable change to Benner's Farm. A recent construction project involved building a new barn where a garage once stood. This new facility will also house a community gathering center for farm events and classes. In addition, the farm also has renovated public restroom facilities. Another change is that the Benners decided to preserve their farm for future generations by selling their development rights. Proceeds were used to acquire additional land for the farm business.

Developing a plan to continue the family farm proved to be a challenge for the Benner family. There was mounting friction between family members, and Jean decided to call Cornell Cooperative Extension of Suffolk County for assistance. Being familiar with NY FarmNet, the local extension office referred the Benner family to NY FarmNet. Some areas that the Benner's implemented were having routine staff meetings, developing job descriptions, and a mission statement for the farm business.

Meetings with an attorney identified components to add to an estate/business plan. A limited liability company was established to reduce personal liability. The LLC owns all farm buildings and tools. In addition, the Benner's attorney utilized a revocable trust to minimize probate issues and ensure a timely transition from one generation to the next.

**OTHER A.E.M. EXTENSION BULLETINS**

EB No	Title	Fee (if applicable)	Author(s)
2010-08	Dairy Farm Business Summary, New York Small Herd Farms, 80 Cows or Fewer, 2009	(\$16.00)	Knoblauch, W., Putnam, L., Kiraly, M. and J. Karszes
2010-07	Dairy Farm Business Summary, Hudson and Central New York Region, 2009	(\$12.00)	Knoblauch, W., Putnam, L., Karszes, J., Buxton, S., Shoen, K., Hadcock, S., Kiraly, M., Hulle, L., Smith, R., Skellie, K., Conneman, G. and R. Overton
2010-06	Dairy Farm Business Summary, Northern NY Region, 2009	(\$12.00)	Knoblauch, W., Putnam, L., Karszes, J., Murray, P., Vokey, F., Prosper, J., Deming, A., Balbian, D., Buxton, S., Manning, J., Collins, B. and R. Overton
2010-05	Dairy Farm Business Summary, Western NY Region, 2009	(\$12.00)	Knoblauch, W., Putnam, L., Karszes, J., Hanchar, J., Grace, J., Carlberg, V., Petzen, J., Welch, D., Ames, M., Overton, R. and K. Skellie
2010-04	Dairy Farm Business Summary, New York Large Herd Farms, 300 Cows or Larger, 2009	(\$16.00)	Karszes, J., Knoblauch, W. and L. Putnam
2010-03	The Effectiveness of Farm-to-Chef Marketing of Local Foods: an Empirical Assessment from Columbia County, NY"		Schmit, T., Lucke, A. and S. Hadcock
2010-02	Business Planning for the Agriculture Sector: A guide to business plan development for Start-up to Mid-Size Operations	(\$12.00)	Perry, J. and R. Overton
2010-01	When to Exit: Dairy Farming: The Value of Waiting		Tauer, L. and J. Dressler
2009-22	Marketing the Unique Story of Your Farm Business for Success		Schmit, T., Hulcoop, L. and R. Weybright
2009-21	Dairy Farm Business Summary, New York Dairy Farm Renters, 2008	(\$16.00)	Knoblauch, W. and L. Putnam
2009-20	New York Economic Handbook 2010	(\$10.00)	Extension Staff
2009-19	Fruit Farm Business Summary, Lake Ontario Region New York, 2008		White, G., DeMarse, A. and J. Neyhard

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