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To: Special Committee on Aging, United States Senate

From: Derek Godwin, Staff Chair in Marion County and Watershed Management Specialist

Re: Testimony for Special Committee on Aging

The following testimony is provided by Derek Godwin and includes information gathered from John Burt, professor emeritus at OSU, and Mark Green, professor at OSU and Director of the Austin Family Business Program.

Farmers face many challenges like making daily decisions on when to plow, till, plant, fertilize, and harvest, or management decisions involving their sizeable assets, numerous employees, a multitude of rules and regulations and a market place that changes every day. In addition to these challenges, competition from foreign markets, environmental concerns, low prices and many global factors also make the future uncertain.

These issues may be similar to a lot of other businesses, but what makes farming unique is the family nature of the business. Probably 95% of commercial agriculture is structured as family owned businesses - partnerships, corporations or single proprietorships - the basic underlying structure making agriculture so productive over the last century. Husbands and wives, brothers and sisters, parents and their children working side by side on land passed on over several generations.

In the last two U.S. Census of Agriculture reports the average age of farm owners continues to increase towards 60 years of age. This means that our communities and society in general can anticipate an unprecedented transfer in ownership of land-based business over the next couple of decades. In addition, the value of agriculture property has appreciated significantly over the years which adds complexity to how and if farms will transition to the next generation. We are at a critical stage in planning for the future of agriculture: recruiting and training the next generation of farmers and ensuring farms will continue to be viable, healthy operations. Every family owned business has to deal with transitions, but it seems to be reaching crisis proportions in agriculture.

The following paragraphs describe typical family and transition management issues with farming families in Oregon and other states. This testimony highlights these issues to assist the Committee on Aging in understanding the issues and explore possible solutions in supporting a healthy, vibrant future for agriculture and our families in the United States.

So what is preventing young people from staying on the farm? First and foremost is profitability. Decision-makers and consumers alike are stuck on "cheap food" as a goal both in the local super market and as a way to compete in foreign markets. If we don't get this one solved, there won't be a future in farming in America for the next generation. In Oregon, one recent marketing tactic that is gaining success is educating people to "buy local" and support local farms. This education is helping increase demand at grocery stores for locally

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grown products even if they are more expensive than foreign and out-of-state products. Another recent success in Oregon is to increase the amount of locally grown products being used in state schools. Schools have historically held contracts with companies that used foods from other states and countries solely because they were the cheapest to obtain.

Next is the difficult access into farming. In reality, you are either born or marry into it. Small farms are an option, but small farms have a hard time surviving and they are often highly leveraged and subsidized by off farm income. Farmers markets, roadside stands, U-Pick farms and community farming all find a hard way to gain acceptance in the market place, but are some of the best ways for small farms to get started.

Estate taxes are another major burden facing the inter-generation transfer of a farming operation. A farm may be asset heavy whether it is profitable or not, and the last transfer between the parent and offspring can still be heavily taxed. So much so that heirs often go into debt and/or sell parts of the property to pay the tax bill.

The above are the more tangible barriers to choosing farming for a career. How about long hours, low pay, isolation, working with your parents and few vacations or weekends off? To paraphrase a local farmer: How are you going to keep them on the farm after they have seen what a job at Microsoft pays?

All of this isn't new or necessarily limited to farming; but, it's a critical time to explore solutions to resolve these issues. Here are a few ideas from my own point of view.

- On the big picture scale, consider eliminating or seriously modifying the estate tax for family owned businesses in order to allow for the successful transition among generations.
- Look for ways to make access into farming a reality for more young people. This could range from low interest business loans to scholarships for people attending university and technical schools to study agriculture and business with the intent on returning to the family farm.
- Encourage agri-business, agricultural organizations and non-profits and even local farmers to take a more direct role in nurturing those young people who want to get into or remain in agriculture. They are as close as your local FFA Chapter, 4-H Club, Community College or University. They should be available for internships, work- study programs or job shadowing. The more young people are exposed to agriculture as a career, the more likely they will opt for it as a career choice and eventually find their way home.
- Finally, create local support and advisory groups for farm families facing these challenges. Look for networks that link schools, non-profit and other organizations together with farm families.

If we start with the premise that keeping the "family" in family farms is a good idea - and it seems that the great success in America's agriculture over the years is because its structure is based on a family-owned business - future success will come because we have supported families on farms and their ability to effectively transition to the next generation.

Oregon State University Extension Service and the Austin Family Business Program at Oregon State University have been developing and delivering educational assistance to help farmers and woodlot owners

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create effective succession plans. These programs provide information about the legal and economic aspects of managing and transferring family farms and woodlands; but more importantly, they provide steps within the complicated emotional context of family ties. Oregon and colleagues in many other states have found that the most critical component in creating a successful transition plan is the ability for the family to effectively communicate. These Extension programs incorporate communication techniques while guiding landowners through the following steps in creating a succession plan:

1. Discuss and write down your goals (vision) for the property and the family.
2. Discuss these written goals with your family
3. Create a family business entity to own the land
4. Have regular family meetings to discuss the business and share your passion
5. Set family employment policies before you hire any family members
6. Discuss and write down important decisions
7. Create non-financial reasons for the family to keep the property
8. Get your kids and grandkids out to work and have fun on the property
9. Create a governance structure that will survive your passing
10. Remember to have fun!

No matter what the future holds for agriculture, whether it is a move towards organic markets, niche markets, new products, etc., success will come because we have worked hard to generate solutions that effectively support families on farms. I commend this Committee on Aging for their foresight in considering these issues, and I hope this testimony has provided some ideas on possible solutions.