

# Financial Challenges of Succession Planning



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Lebanon, PA  
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# ➤ What is Succession/Transition?

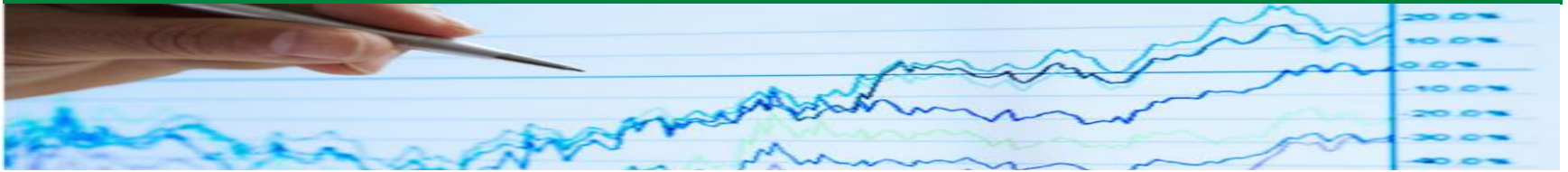
- Transfer of assets
- Transfer of management
- A multi step process
- Transfer of knowledge
- A transfer of belief and trust



# ➤ Hopes, Wants, Needs, Fears

- What do I **want** to happen when the family farm transitions to new management?
- What do I **need** to happen when the family farm transitions to new management?
- What do I **hope** happens when the family farm transitions to new management?
- What do I **fear** might happen when the family farm transitions to new management?

# ▶ Setting a baseline



- What is the asset value of the farm?
  - Land, buildings, machinery and equipment, livestock, stored grain, timberland
- What is the debt on the farm?
  - Mortgages, equipment loans, auto loans, accounts payable, credit card(s)
- Human capital
  - Labor, who fills what rolls
- Access to resources

# Do we have what we need?

- Inventory of resources
  - Land, buildings, machinery, equipment, financial, community support, services and people
- Are there enough resources?
- Are there underused resources?



# ➤ Where do we stand financially?

- Is the business:
  - Profitable?
  - Solvent?
  - Liquid?
  - Efficient?
- Develop or update your basic financials
  - Cash-flow
  - Income statement
  - Net Worth Statement
  - Owner equity shares

# ▶ Net Worth Statement - Assets

- **Current Assets**
  - Checking accounts
  - Crop inventory
  - Market livestock
  - Prepaid expenses
  - Accounts receivable
  
- **Intermediate Assets**
  - Breeding stock
  - Machinery and Equipment
  - Retirement accounts
  
- **Fixed Assets**
  - Farmland
  - Residence
  - Other real estate

## Net Worth Statement

Name \_\_\_\_\_ Date \_\_\_\_\_

Farm Assets	Cost Value	Market Value	Farm Liabilities	Market Value
Checking and savings accounts			Accounts payable	
Crops held for sale/feed			Farm taxes due	
Investment in growing crops			Current notes and credit lines	
Commercial feed on hand			Accrued interest - short	
Prepaid expenses			- fixed	
Market livestock				
Supplies on hand			Due in 12 months - fixed	
Accounts receivable				
Other current assets			Other current liabilities	
<b>a. Total Current Assets</b>			<b>b. Total Current Liabilities</b>	
Unpaid co-op. distributions			Notes and contracts, remainder	
Breeding livestock			- Machinery	
Machinery & equipment			- Land	
Buildings/improvements			- Other fixed assets	
Farmland				
Farm securities, certificates				
Other fixed assets			Other fixed liabilities	
<b>Total Fixed Assets</b>			<b>Total Fixed Liabilities</b>	
<b>c. Total Farm Assets</b>			<b>d. Total Farm Liabilities</b>	
<b>e. Farm Net Worth (c - d)</b>			Working Capital (a - b)	
<b>f. Farm Net Worth Last Year</b>			Current Asset-to-Debt Ratio (a / b)	
<b>g. Change in Farm Net Worth (e - f)</b>			<b>Total Debt-to-Asset Ratio (d / c)</b>	
<b>Personal Assets</b>			<b>Personal Liabilities</b>	
Bank accounts, cash, savings			Credit card, charge accounts, other loans	
Automobiles, boats, etc.			Automobile loans	
Household goods, clothing			Accounts payable, taxes due	
Stocks, bonds, etc.			Other loans	
Real estate			Real estate, other long-term loans	
<b>h. Total Personal Assets</b>			<b>i. Total Personal Liabilities</b>	
<b>j. Total Personal Net Worth (h - i)</b>				
<b>k. Total Net Worth, Market Value (e + j)</b>			<b>Personal Debt-to-Asset Ratio (i / h)</b>	

# ▶ Net Worth Statement - Liabilities

- **Current Liabilities**
  - Taxes
  - Accounts payable
  - Cash Rent
  - Annual interest
- **Intermediate Liabilities**
  - Loans i.e. equipment, machinery, buildings
  - Deferred taxes
- **Long Term Liabilities**
  - Farm land loan





# Human Capital

- Identify the strengths and weaknesses of farm family members
- Provide clear expectations
- Consider job descriptions
- Know your role and the role of others
- Management capacity is not a given

# ▶ Analysis and Evaluation

- Financial Feasibility
  - Enterprise budgets
  - Scenario based budgets
- SWOT Analysis
  - Internal, Strengths and Weaknesses
  - External, Opportunities and Threats
- PACE
  - Plan, Alternate Plan, Contingency Plan, Emergency Plan

# ▶ Developing a business plan

- Should be easy to understand
- Communicate your businesses vision, goals and objectives to other family members, financial planners, lenders, etc.
- Should be flexible



# ▶ Estate & Retirement Planning

- Important for the retiring and entering generations
- Need to understand your business structure, organizational structure and financial structure
- Interdependence affects estate taxes, income taxes, how the assets can be passed on to the next generation, and who gets the income.

# State Loan Programs

## Next Generation Farmer Loan Program (NGFLP)

- Encourages lenders to finance beginning farmers by allocating a portion of the Commonwealth's private activity bond volume cap to first-time farmer projects
- Lender's credit standards and other terms and conditions
- Lender is exempt from Federal, State, or County income tax on loan interest
- Typical state allocation \$15 million
  - 2014: 22 loans totaling ~\$10 million
  - 2015: 19 loans totaling ~\$8.5 million

# State Loan Programs

## Next Generation Farmer Loan Program (NGFLP)

- Maximum Loan (index annually) for non-depreciable property
  - \$488,000 for 2012
  - \$520,000 for 2016
- Maximum that may be borrowed for used equipment is \$62,500
- Beginning farmers
  - at least 18 years old
  - with no prior ownership of property which is >30% of median farm size
  - and whose net worth does not exceed \$544,554
- Proceeds can not be used for the farm residence

# State Loan Programs

## Pennsylvania Industrial Development Authority (PIDA)

- Maximum Loan
  - Lesser of 50% of project or \$400,000
    - Land/Building term loan
    - Machinery and Equipment term loan
  - \$100,000 with no matching requirement
    - Working Cap LOC
- Terms (up to)
  - 15 – Land and Building
  - 10 – Machinery and Equipment
  - Annual renewals on LOC up to 6 years

# State Loan Programs

## Pennsylvania Industrial Development Authority (PIDA)

- Can take subordinate loan position
- No job creation requirement for production ag
- All others 1 retained job per \$35,000 or 1 created job per \$50,000
- Individuals/businesses may borrow up to the limit every 12 months



# ➤ Federal Loan Programs

## Farm Service Agency (FSA)

- Direct Farm Ownership and Operating Loans
- Guaranteed Farm Ownership and Operating Loans
- Microloans
- Land Contract Guarantee
- Disaster Loans



# Resources

- PA Farm Link
  - [www.pafarmlink.org](http://www.pafarmlink.org)
- Keep PA Growing
  - [www.keepPAGrowing.com](http://www.keepPAGrowing.com)
- AgBiz Masters
  - [www.agbizmasters.com](http://www.agbizmasters.com)

# THANK YOU!

- Questions ???
- Thank you for your time and attention!
- Jared Grissinger  
2301 North Cameron Street  
Harrisburg, PA 17110  
ph: 717-705-9513  
em: [jgrissinge@pa.gov](mailto:jgrissinge@pa.gov)