

Decision Case Number 4

Agricultural Conservation Easement Offer— The Spradley Farm *A Holistic Management® Decision Case*

1. Verner and Mildred Spradley have been up all night. Their family has farmed the same land for five generations, and now they are considering selling a part of it, the development rights. Mildred has lived on the farm all of her life. She was born at the “Old Place,” a modest farmhouse that nature has long since recaptured. They now reside in a beautiful farmhouse on a tract of land bought 30 years ago. Let’s listen in as they discuss their situation.

Verner: Mildred, I haven’t slept much in three days.

Mildred: I haven’t either.

Verner: The easement people called today and want to know what we want to do.

Mildred: The easement money would sure set us up for retirement. I just don’t feel comfortable selling an easement on my dad’s farm. We barely even know those people.

Verner: I feel good about owning the land outright with no one telling us what we can and can’t do with it. The easement folks seem nice enough. It would be good to know that it won’t be broken up into house lots once we’re gone.

Mildred: They said that it might take three years to get another easement offer if we don’t take this one.

Verner: I don’t know if I can go another three years. You know how my knees hurt in the morning. Maybe we should just sell the farm to Otto. He’s a good farmer offering us a good buck; we could afford to do a lot more when we retire.

Mildred: It might just be wishful thinking, but I was hoping that one of our grandchildren would run the farm someday. Betty and Jimmy really love it when they stay with us in the summer.

Verner: Betty sure enjoys the cows and tending the garden with you. What do you think we should do, Mildred?

Mildred: It’s not clear to me. Whatever we decide, we both need to believe it’s the right thing to do.

2. Verner has always believed in conserving the land. He was the first to use conservation tillage. He has logged his forest carefully, and he takes pride in breeding dairy cattle and continuing the heritage of cow families in the herd. They have a 50 purebred dairy herd with 40 replacement heifers. Conservation of natural resources and nurturing their cattle are part of their being. More can be learned about what Mildred and Verner want out of life by studying their Whole Under Management (Exhibit A) and their Holisticgoal (Exhibit B). Their farm balance sheet is listed in Exhibit C.
3. Verner and Mildred have a daughter, Jamie, and son, John. Jamie, who is 35 years of age, is a civil engineer living in the suburbs of a city about 50 miles from the farm. She is married, with a daughter, Betty, and son, Jimmy. Jamie enjoys her work and has no desire to farm. John, 32 and single, is a commercial loan officer in a city half way across the country. John also has no intention of returning to the farm.

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4. Two years ago, the Spradleys contacted Forever Farms, a regional land trust offering to purchase agricultural conservation easements from farmers. Forever Farms is a relatively new organization, incorporated just five years ago. The mission of the land trust is to protect farmland through the purchase of development rights. A description of the Forever Farms Easement is provided in Exhibit E. Verner and Mildred believe that Forever Farms is a sound organization that will follow through on its obligation to protect the land. They have invested hours in learning about conservation easements. The Spradleys investigated the legal ramifications of conservation easements with the family attorney, and their accountant has done an extensive analysis of the income tax implications (Exhibit D).
5. Forever Farms worked with the Spradleys to develop a conservation easement land plan for the farm. To that end, Verner has carved out five acres of land for exclusion from the easement. This acreage would be set aside for three potential house lots for family members or to sell for income in retirement. Land values have been relatively stable and are not expected to significantly increase in the next few years. Agricultural and market values for the farmland have been established by an appraiser on retainer with the land trust. The difference between the two appraisals is the calculated value of the easement. The initial market valuation was lower than Verner believed to be correct, though he agreed with the appraised agricultural value. Verner and Mildred exercised their option to appeal the appraisal, hiring an appraiser of their choice. The Spradleys' appraiser pegged the value of the land \$50,000 higher than the initial appraisal. The land trust accepted the second appraisal, but Verner believes that the land is still worth more (Exhibit D).
6. Mildred is sixty-two and Verner, at sixty-five, is physically much older due to decades of grueling work. Verner sometimes feels just plain worn out. He would like to retire and raise a few beefers. To this end, Verner needs \$30,000 for livestock and will keep most of his farm machinery and feed inventory. The Spradleys feel that they must pay off all of their debt to be financially secure in retirement. Easement proceeds of \$300,000 and the sale of the dairy herd will allow them to retire all debt, to pay income tax associated with the sale, and to invest a tidy sum to supplement their social security payments (Exhibits C and D), permitting them to live comfortably during their retirement.
7. When Verner mentioned to a neighboring farmer, Otto, that he was considering selling a conservation easement, Otto offered \$750,000 for all of their farmland and buildings, allowing the Spradleys to retain a life interest in the farmhouse and barns. Otto wants nothing to do with conservation easements, stating that he doesn't want anyone else telling him what to do with his land.
8. So here they are, alone to make their decision. Take a walk in the Spradleys' boots. Kick up some dirt and stew on it a while. Should they sell the conservation easement, take Otto's offer, wait in line for possibly another easement offer, or consider another alternative?

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Exhibit A The Spradley Farm Whole Under Management

Decision-Makers:

Primary—Mildred and Verner

Secondary—Bankers, Forever Farms and governmental regulators and legislators

Resource Base:

People

Ourselves, family, neighbors, agri-service providers

Land

310 total acres

60 acres of pasture

200 acres of cropland

50 acres woods

Farm Buildings

50 cow tie-stall barn

40 animal heifer barn

Machinery shed

House

Three-bedroom farmhouse

Equipment & Vehicles

Two tractors

Hay equipment

Milking equipment

Livestock

50 cows

40 heifers

Money:

Income—milk and meat

Checking and savings

Future Social Security benefits

Line of credit at the bank

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Exhibit B The Spradley Farm Holisticgoal

Quality of Life

We value spending time daily with family and friends. Great satisfaction would come from watching our grandchildren play on our land and maybe even farm someday. We want to work productively as long as our health allows. We want to live a comfortable lifestyle and have the ability to maintain the farm and our home. We want to live in harmony with nature. We would like to be remembered for having contributed to the betterment of humanity.

Forms of Production

- Financial security
- Sound health
- Free time for family
- Enjoyable work

Future Resource Base

- Soft, fertile, and well-drained land
- Healthy, well-bred cattle
- Diversified portfolio of sound investments
- Thriving family, farm neighbors and community

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Exhibit C The Spradley Farm Balance Sheet

Assets	
Cash	\$ 10,000
Feed	20,000
Equipment	50,000
Livestock	100,000
Home	\$150,000
Farm buildings	\$ 50,000
Land, second appraisal	<u>\$550,000</u>
Total Assets	\$930,000
 Liabilities	
Accounts Payable	\$ 5,000
Intermediate Debt	25,000
Long-Term Debt	<u>0</u>
Total Liabilities	\$30,000
 Net Worth	 \$900,000

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Exhibit D Value of Easement The Spradley Farm

Easement Value Calculation

Appraised	
Market Value	\$550,000
Agricultural	\$250,000
Value of Easement	\$300,000

Otto's offer for the total farm and buildings	\$750,000
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Income Taxes Associated with the sale of the conservation easement or outright sale of real estate

Federal and State Income taxes associated with the sale of the easement	\$60,000*
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Federal and State Income taxes associated with the sale of real estate to Otto	\$130,000*
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**These numbers are for example only and should not be used as any indication of what the true tax liability should be in this example or for the reader's income tax obligation.*

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Exhibit E Forever Farms Conservation Easement Description

Forever Farms conservation easements promote long-term land uses in farming and forestry by limiting farmland development. This effort is funded by generous donations and grants received by Forever Farms.

The Forever Farms conservation easement program offers landowners an option to permanently conserve their land. The conservation easement is a permanent legal agreement that limits the development and subdivision of property. Under the Forever Farms conservation easement, landowners work the land as they always have. In addition, they may mortgage it, sell it, or leave it to their heirs. The easement remains intact even as the property changes hands.

Landowners also retain the rights of use that are spelled out in the easement, including:

- Farming and forestry activities
- Use, maintenance and improvements to existing structures
- Construction, maintenance and improvements of new agricultural structures
- Recreational activities such as fishing, hunting, hiking and snowmobiling

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Exhibit F Testing Questions

Opportunity Under Consideration:

Cause and Effect:

Does the action address the root cause of the problem?

Weak Link:

Social: Have I/we considered and/or addressed any confusion, anger, or opposition this act in could create with people whose support I/we need in the near or distant future?

Biological: Does this action address the weakest point in the life cycle of this organism?

Financial: Does this action strengthen the weakest link in the chain of production?

Marginal Reaction (Comparing two or more actions):

Which action provides the greatest return, in terms of my/our holistic goal, for the time and money spent?

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Gross Profit Analysis (Comparing two of more enterprises):

Which enterprises contribute the most to covering the overheads of the business?

Energy/Money, Source and Use:

Is the energy or money to be used in this action derived from the most appropriate source in terms of my/your holistic goal?

Will the way in which the energy or money is to be used lead toward my/our holisticgoal?

Sustainability:

If I/we take this action, will it lead toward or away from the future resource base described in my/our holisticgoal?

Society and Culture:

Considering all the questions and my/our holisticgoal, how do I/we feel about this action now?

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Agricultural Conservation Easement Offer Teaching Note

This decision case was developed by John M. Thurgood, Cornell Cooperative Extension in Delaware County with help from Judy Spencer and Sandra Whittaker, Delaware County Soil and Water Conservation District and Amy Olney, Jean Parenteau and Bill Brosseau of the Watershed Agricultural Council.

Overview:

The intent of this Holistic Management® Decision Case is to help participants learn how to make sound decisions using the Holistic Management® Testing Questions. A secondary objective is for use as an educational tool for farmers considering selling an agricultural conservation easement. Case facilitators are encouraged to have proficiency in practicing Holistic Management and have a working knowledge of agricultural conservation easements.

Audience:

- ✦ Farmers and landowners
- ✦ Conservation easement professionals
- ✦ Agri-service professionals including bankers, real estate agents, etc.
- ✦ Agency professionals including Cooperative Extension Educators, Natural Resources Conservation Service-Resource Conservationists, etc.
- ✦ Holistic Management practitioners

Learning Objectives:

- ✦ Understand the power of the holistic decision-making process and the power of a holisticgoal.
- ✦ Use the Holistic Management® testing questions
- ✦ Learn about the process of selling an agricultural conservation easement.

Materials Needed

- ✦ Agricultural Conservation Easement Offer—The Spradley Farm Case Study
- ✦ Exhibit A—The Holisticgoal, The Spradley Farm
- ✦ Exhibit B—The Whole Under Management, The Spradley Farm
- ✦ Exhibit C—Balance Sheet, The Spradley Farm
- ✦ Exhibit D—Value of Easement, The Spradley Farm
- ✦ Exhibit E—Forever Farms Easement Description
- ✦ Exhibit F—Testing Questions
- ✦ Teaching notes
- ✦ Flipchart
- ✦ Markers
- ✦ Tape

Teaching Process:

- Have participants read the total decision case and exhibits.

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- Suggest having two people read decision case before and after dialogue. Have two additional people play the role of Mildred and Verner.
- Divide group into teams of 3-5 people. Have a person familiar with using the testing questions in each group to help work through the testing process, or the presenter visits each group regularly to listen in and help.
- Instruct teams to name a facilitator, recorder, time-keeper and reporter. Let them know that these roles will change each time they break into smaller groups. Also, instruct them to use a talking stick (only the person with the stick may speak) for the initial round of responses to the following questions.
 - ✦ Define the issue facing the Spradleys. Why are they considering selling a conservation easement or the farm?
 - ✦ What parts of the Spradleys' holistic goal will help guide them in their decision? Define the alternatives the Spradleys are contemplating. Are there other alternatives your group believes the Spradleys should consider? If so, please list them.
- Have the sub-groups report back to the full group by way of their reporter. Take one question at a time. Have the reporters only relate insights that are not mentioned by the reporters of the previous groups.
- After each group's reporter has related alternatives that the Spradleys should consider, have each reporter select one alternative for his/her group to test using the testing questions, exhaust all alternatives before allowing a reporter to select an alternative selected by a prior group. Advanced groups would benefit by testing all alternatives (the Marginal Reaction test is only meaningful with multiple alternatives).
- Have groups reconvene, select a new facilitator, recorder, time-keeper and reporter. Have them use the testing questions and report back their analysis and decision using the testing questions.
- In closing, explain to the group that the process in coming to a decision is what is important to this exercise. Complement them on their diligence. Thank them for allowing you to facilitate their learning of Holistic Management.