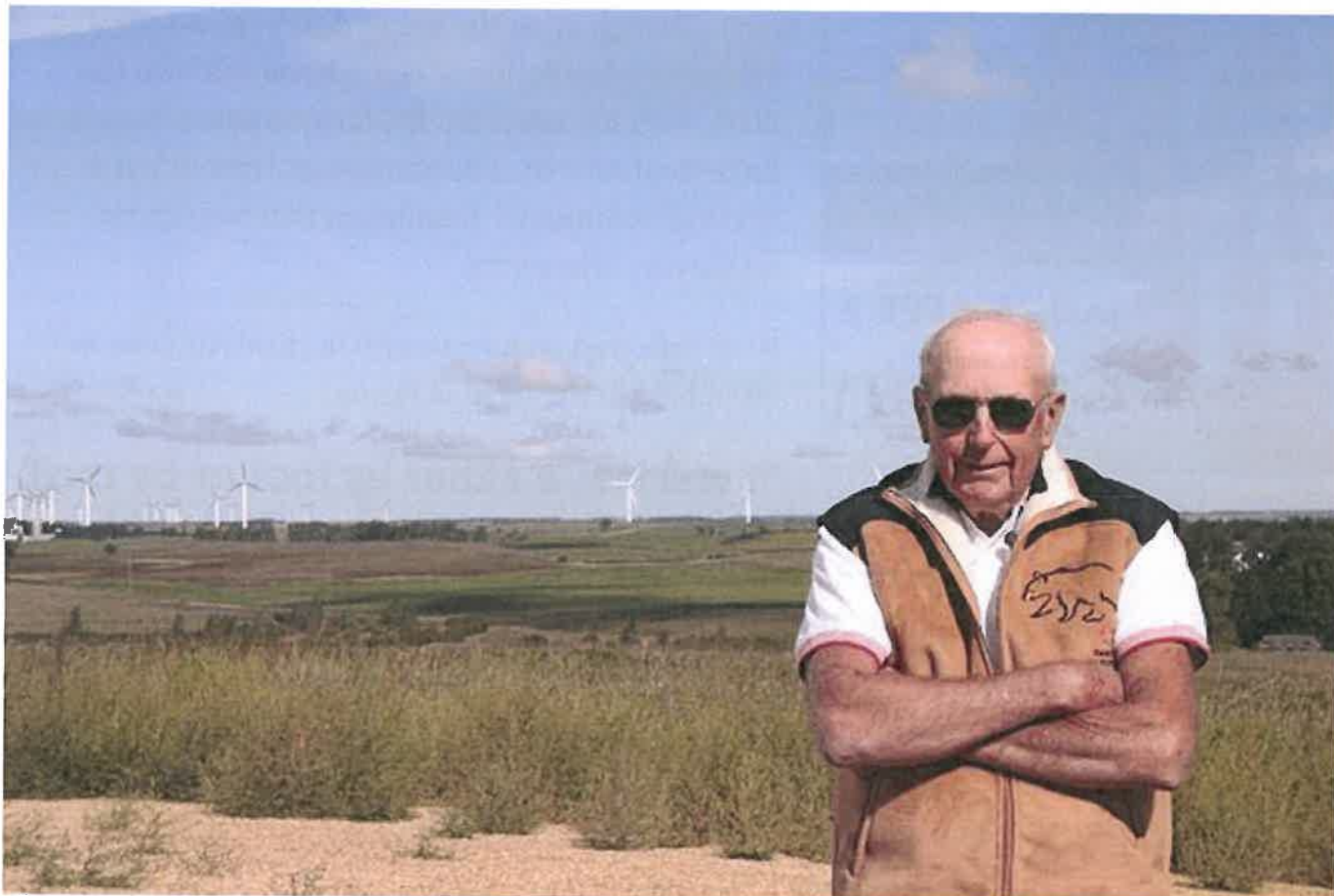


MINNPOST

'Keep It Growing' helps Minnesota farmers, communities retain farm land

By Claudia Broman | 11/18/13



Courtesy of the Southwest Initiative Foundation

Glenn Krog, a farmer in Lincoln County near Lake Benton, recently gave 320 acres of farmland to the Southwest Initiative Foundation of Hutchinson through a life estate program. His goal is to support the Lake Benton community with rental income the foundation will receive by managing his property.

Glenn Krog was born 78 years ago on the Lincoln County farmstead he calls home in southwestern Minnesota.

He used to raise cattle, but now focuses on growing soybeans, wheat, alfalfa and corn – and he would have stopped farming about 10 years ago were it not for the help of “a good hired man.”

“I wouldn’t have been able to keep farming,” the bachelor Krog said, full of appreciation.

“The last 10 years have been good for agriculture,” he added. During that decade he thought about what he could do for the man who has been so much help to him for so long.

Krog decided to give the man 320 acres of his farmland as a way to say thank you, but then changed his will after figuring out that the individual had no family connection to the region between Lake Benton, Pipestone, Marshall and Brookings, where the farm is located.

If the hired man had died a day after Krog, the ownership of the farm could have been transferred to the man's family in the Twin Cities or even outside the state, Krog said.



After this realization Krog changed his will so that the hired man would still have lifetime use of the farm, though upon the man's death the Southwest Initiative Foundation of Hutchinson will own the farm, with income from the farm to solely benefit the Lake Benton area. The Southwest Initiative is a regional community foundation that focuses on southwest Minnesota.

Krog reflected on how wealth in rural America is often held in the form of farms.

'It will leave either by foot or by mail'

"If something isn't done to attach that wealth, it will

leave either by foot or by mail," he said, referring to estates passing to non-resident descendants, income taxes, capital gains taxes and estate taxes. "Small town America is struggling in that the wealth leaves. And you know, I grew up here. I just like my community."

"So the name of the game is capital retention," Krog said.

Krog points to foundations as being new vehicles for small, rural communities to retain capital.

However, the option for public charitable organizations like the Southwest Initiative to hold and manage farmland, like Krog's, wasn't always available in Minnesota.

Patrick Costello, an attorney in Lakefield with the firm Costello, Carlson, and Butzon, had the idea about 20 years ago after writing a paper about farmer estate planning for an educational symposium panel held in 1994 by the American Agriculture Law Association, an organization of which he became president on Nov. 1.

Costello said through writing his paper he found that farmers without descendants are often charitably inclined and would like to leave charitable legacies.

Complications for recipients

For private charitable foundations, 5 percent of an organization's trust must be distributed each

year to avoid tax implications, Costello explained. But that rule, where a farm asset is concerned, could mean the foundation might have to sell off pieces of property to make the required distribution and essentially cannibalize a farm in the process, Costello explained.

“But public foundations are authorized to give away net income,” Costello said. So farms being left to a public-supported charity seemed to have a big advantage in terms of remaining intact, he said.

A problem remained.

At the time Costello wrote his paper, public charities sold farms instead of retaining those types of assets because it was illegal in Minnesota for public charities to own farms, he explained.

“For over 10 years this couldn’t be done,” Costello said. “So the law needed to be changed and the policy needed to be changed.”

The law Costello refers to is Minnesota statute 500.24, which he said is the “Anti-Corporate Farming Law,” as it specifies who is allowed to hold farmland in the Gopher State.

“We thought the day would come,” Costello said, describing the optimistic attitude he and Southwest Initiative representatives had while waiting for the state’s farming law to change.

The Southwest Initiative eventually became one of Costello’s clients, and he started working on rules for the organization that would assist it in being able to own farmland. The foundation’s board began steps to change its investment policy so that farmland, even though it was a non-cash asset, could be held without being sold.

The anticipated day came in the mid-2000s. The state’s farmland ownership statute was changed as part of a technical corrections bill approved by the Minnesota Legislature, Costello explained.

“The tweaking that took place was completely unexpected,” Costello said.

The surprise alterations allowed individuals and private foundations to make retained farmland gifts to public charities as exit strategies either upon closing up foundations or making estate plans, Costello said.

Small hospitals or small churches that found themselves going out of business also had another option of handling their farmland assets, Costello explained.

Meeting a donor demand

“This is very gratifying for me to see that somebody saw the merit of what could be done,” Costello said. “It’s really to meet a donor demand.”

Until the mid-2000s, the policy of the Southwest Initiative had been to convert any received property to cash, said Diana Anderson, vice president and chief operating officer of the foundation. Over time the organization's leadership came to see different potential with farmland partly due to how farmland values were increasing within the foundation's 18-county service region.

Figures from the U.S. Department of Agriculture and the Agricultural Statistics Division of the Minnesota Department of Agriculture show that the average values of farm real estate and cropland in the state have significantly increased over the past 10 years. Farm real estate has tripled from \$1,550 per acre in 2003 to \$4,750 in 2013. Cropland has also tripled, from \$1,510 per acre in 2003 to \$4,850 in 2013.

The differences between these figures become more significant when examined from a southwestern Minnesota standpoint.

In 2003 the average per-acre sale price was about \$1,700 in southwestern Minnesota, and as of 2012 that number had jumped more than three-and-a-half times to \$6,100 in the same region, according to a staff paper written by Steven J. Taff for the University of Minnesota's Department of Applied Economics.

A major portion of the region's wealth

With close to 75 percent of land in southwest Minnesota being tillable farm ground, Anderson said, a major portion of the region's wealth is now held in the form of farmland. Anderson refers to the land as "an appreciable asset" that helps diversify the foundation's investment portfolio.

The Southwest Initiative created the "Keep It Growing" program in 2006. Given the altered Minnesota farm law, the foundation was able to own and manage farmland, with local tenants cultivating the land and the tenants' rental payments becoming income used by the organization to support early childhood initiative and Youth Energy Summit programming.



Courtesy of the Southwest Initiative Foundation

A tiling project recently took place on property in Cottonwood County held through the Keep It Growing program of the Southwest Initiative Foundation.

As farmers consider their estate options they often realize that their net worth is more than they ever imagined and that their estates could be heavily taxed, Anderson said. Many times farmers can receive charitable deductions for participating in Keep It Growing, Anderson said, though that requires planning ahead.

Two farm parcels, one in Cottonwood County and the other in Jackson County, are now owned outright and actively managed by the Southwest Initiative while the foundation continues to promote Keep It Growing to potential donors.

“There has been significant interest in the program,” Anderson said. “Today, we’re the only ones doing it.”

The foundation’s first gift was 120 acres, and though the donor wanted complete anonymity Anderson was able to share in general terms the story of the childless farm couple. The husband had passed away, and the surviving spouse was using rental income from the farm to maintain her home. As time passed, the woman came to need assisted living, but in the process of planning for the assistance she learned there would be significant consequences; she would need to sell nearly 50 percent of her land over time to pay for the assisted-living accommodations. Not wanting the farm to be broken apart, the woman set up a life estate with the Southwest Initiative, providing her land as a gift to the charitable organization with a reservation that she could use the land and

its rental income for the remainder of her life. The life estate was then noted on the deed, the woman was able to receive annual rental income from the farmland for another eight years before she died, and the young farmer tenant who had come to rely on the farmland was able to remain a renter.

“We still have that tenant on the farm,” Anderson said.

Along with a separate parcel of 230 acres being actively managed, the foundation is also named in four other life estates, though the owners of those properties are still living, including the 320 acres farmed by Glenn Krog in Lincoln County and another 110-acre parcel in Lac qui Parle County that will eventually benefit the Madison area.

No farming-type restrictions

The foundation has so far received about \$80,000 per year on its two managed properties from market-rate rents to local tenants. No restrictions are placed by the foundation on whether farming is conventional or organic, though all land currently managed is being cultivated conventionally with corn and beans. Altogether, including the gifts from life estates not yet managed by the foundation, 1,569 acres are enrolled in the Keep It Growing program.

The idea of preserving local wealth, local communities and local economies is directly related to the Southwest Initiative mission, Anderson said.

“The intent for us is that the land stays in agricultural production,” Anderson said. “Our desire is to see what benefits the community and what would help the tenant.”

The focus on local benefit, for Krog, is of particular interest.

Though he said it is helpful when grant funding is available from outside the area for various projects, he wants his community to be self-reliant 10, 20, or 100 years from now.

By Krog’s count, only eight out of 202 Minnesota legislators are farmers.

“Down the road they may be more interested in mass transit or building baseball stadiums” than protecting farmland, Krog said. “Small town America needs to look out for itself.”

Claudia Broman is a freelance writer in Litchfield. Visit claudiabroman.com.

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Applause to Mr. Krog for is vision of keeping our agricultural areas vital and the Southwest Area Initiative foundation for it's forward thinking.

