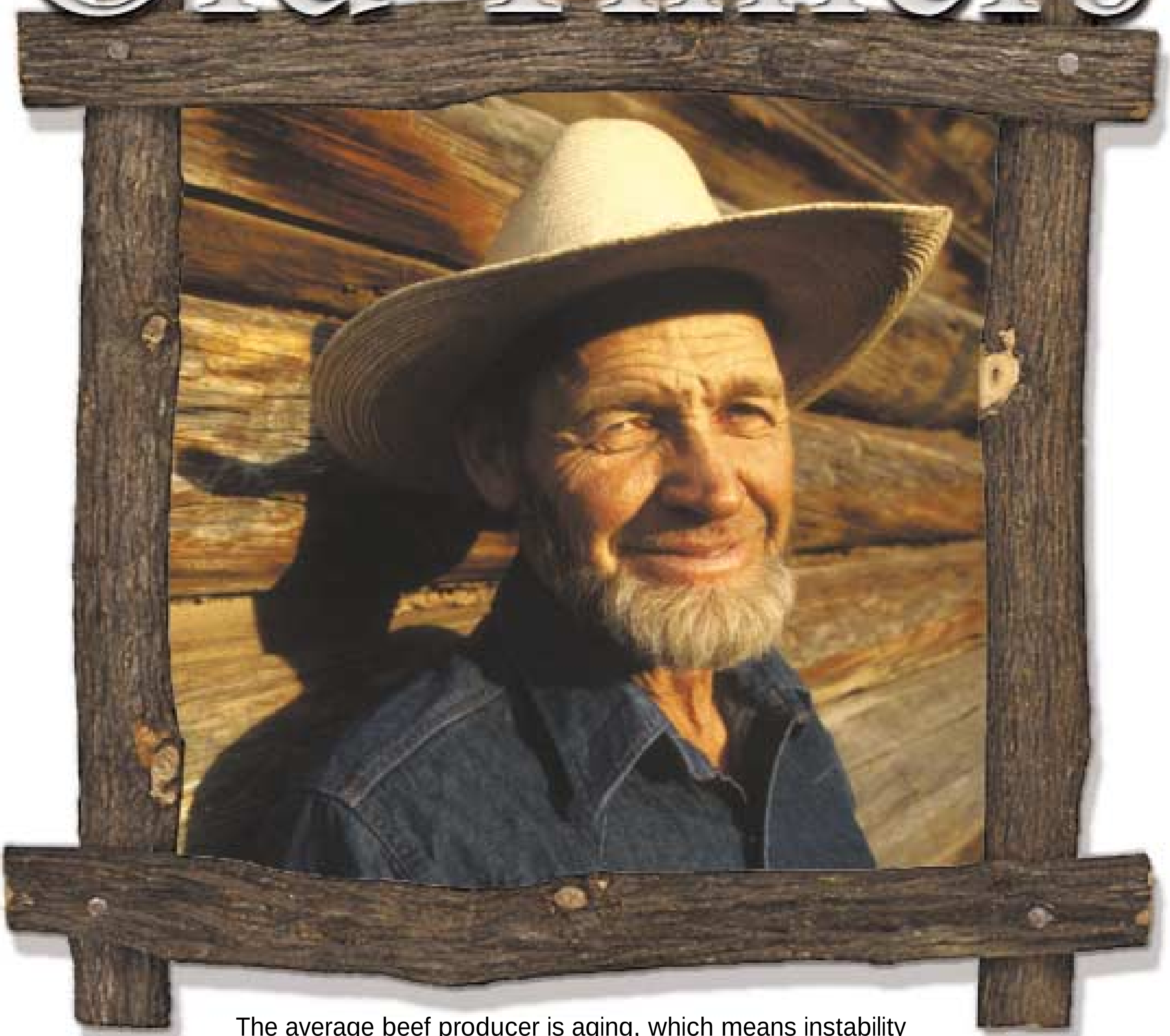
Old Timers



The average beef producer is aging, which means instability and uncertainty for ranchers in the future.

STORY & PHOTOS BY ERIC GRANT

The Colorado homestead where Carl Herold was born and raised long since has been sold to developers. The family settled here in 1909. They built a cabin, set fence posts and stretched barbed wire around their land. And, as the years went by, the cyclical nature of life on the range remained intact.

Herold was one of five children. Born in 1941, he recalls his early years as pleasant ones, despite the lack of running water or electricity. It was home, after all, with predictably long, snowbound winters and warm, sun-splashed summer days.

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Because of the development value of his land, Carl Herold faces a challenge in passing the land on to the next generation, which includes his son, Chip.

The family raised a few cows and sheep, irrigated the hay meadows and pastures, and lived peacefully in the cradle of the Rocky Mountains. Herold's mother taught school in the nearby town of Oak Creek, a mining community, and when the snow piled too deep, they loaded up the kids and headed for town 'til spring.

"Money was always tight, but we were never really without what we needed," Herold recalls. "We never thought of ourselves as poor. We had food from the garden, and we'd butcher a cow."

Looking back, Herold has seen his fair share of changes. His folks sold the homestead in 1972 when developers began clearing the mountain above the old house for a new ski resort called Stagecoach. The ski resort failed, but the effects of growth still resonate. There are more people, more traffic on the roads, more regulations and more pressure on the land than ever, Herold says.

He married Rita Moore, a local girl from Yampa, and moved upriver to her family's ranch. Together, they raised two children, Carl "Chip" and Nita. Chip continues to work on the ranch with his parents. The family maintains 120 head of crossbred Angus cows, plus replacement females. They like Angus cattle because the breed uses range better than the Herefords they once had. Plus, they like the breed's ability to stay healthy in rigorous environmental conditions. Having Angus is an important component in ensuring their operation's competitive advantage.

Uncertain future

Challenges do loom ahead, and change is in the air. Herold admits that it will be difficult for his ranch to remain in business in the future, and it will be even more difficult to see it stay in the family's hands, given the price of land.

Herold, 59, is at an age when most Americans are contemplating retirement, but he hopes to keep working for as long as he can. In fact, most ranchers are carrying on these days, even though U.S. Department of Agriculture (USDA) census information shows their average age is approaching 60, and most of them are cash poor and land rich.

Trouble is, an aging ranching population equates to instability and uncertainty for rural land, rural communities and rural culture. For instance, vast tracts of land near the Steamboat area have given way to newcomers who build houses and settle where meadows and hay fields once sprawled. The changes are both environmentally and culturally profound.

The task of estate planning and estate transition may be more difficult for Herold than it was for the previous generation. And because land values are at their highest levels ever, the Herolds' heirs could have an enormous tax burden to pay when they inherit the land.

Compounding the situation is that, despite the fact that the cattle business is better this year, the negative financial effects of the last few years continue to linger.

Why would anyone in the younger generation want to ranch — and lose money about half the time — when they could seek more lucrative opportunities in town?

In many respects, tough times never really end for ranchers. While there have been periods of profitability since the 1930s, the last five years have been as difficult as anyone can remember. Nearly 10% of the nation's cattle producers have gone broke or sold out, and it's been a slow, sinister game of attrition in the shadow of the country's economic prosperity.

Market analysts have been projecting improvements in the cattle market for nearly three years, only to have their predictions upended. Topper Thorpe, executive vice president of Cattle-Fax, a Denver-based market-analysis firm, believes the industry should see gradual improvement over the next few years and a slackening of the tight economic times.

When prices improve, cattle producers historically have expanded production to achieve economies of scale and to become more competitive for the next downturn in prices. If they can't expand, they must cut costs. If they can do neither, they lose ground financially, and many eventually go broke.

The quandary

Ranchers today find themselves in a quandary. As in Herold's case, land values, driven up by a massive influx of people, are in many cases too high to expand, even if cattle prices do improve. And finding areas within their operations to cut production costs is becoming more difficult to do.

"The value of the land has become so great that in many areas you literally can't afford to ranch or farm it," Thorpe says. "In many cases, once you get past the generation that put the operation together with blood, sweat, and tears and everything that goes with it, all that the heirs see is the money they can make by selling the land. They want cash. They could care less about the operation itself. They have no feelings for it."

Rancher J.D. Wright, 65, of Olney Springs, Colo., cares deeply about what happens to his land and is working hard to pass it along to his daughter, Elaine White. Together they manage about 375 head of cows and yearlings, plus a few crops. High land values are preventing them from buying new ground for expansion.

"There's a half-section of ground nearby that just sold for $300 an acre," Wright says. "That ground is still under the federal Conservation Reserve Program (CRP), which means it can't by law produce anything for another seven years. We can't come close to paying that much for land — especially if you can't produce anything on it."

Because so many of their neighbors have gone broke recently, the Wrights have plenty of land to lease, however. This has helped them increase production.

"Leasing is the only way we have to expand our operation and to keep it viable," Wright says. "But leasing also makes it very difficult to plan, especially for the long term. It's tough to go to the banker and lay out your objectives because you don't know year to year who's going to own the land and what they're going to do with it."

To diversify, Wright has a repair shop where he fixes machinery for his neighbors. But even this has drawbacks.

"We have lots of customers making monthly payments for repairs," Wright says. "They say there isn't any inflation, but it seems that everybody in agriculture is having trouble paying their bills. You can't buy anything if you're a rancher or farmer. You can't afford to buy a new tractor, and you can't afford to have the old one fixed. There are many, many people being forced out because they can't pay their bills. We're all teetering toward that. One more drop in cattle prices, and we could all be out."

Memories of parents, of family and of childhood are too much to leave.

In central California, much of the land once used for ranching not only has been converted to homes, but also to vineyards. This has driven up land values in other parts of the state, challenging the viability of the beef industry.

"A lot of ranching families are going out of business because land has become so valuable," says Jim Timmons, 74, who owns and operates a 200-head cow-calf operation near Arcata, Calif. He's ranched there all of his life, inheriting the operation from his father, who founded it in 1919. Timmons doesn't expect his children to return to the operation, so he's leasing part of it to a neighbor. This provides him with some income and helps a younger operator to expand.

"My children have all developed into other interests and endeavors," Timmons says. "The industry has gone through such a tough period the last few years, it's discouraged a lot of young people from even considering getting into the business. They just don't see any encouraging signs."

Opportunities

Still, hope is on the horizon for those who wish to stay in ranching and to pass it along to the next generation. But it will take careful planning for ranchers to make their businesses viable when their heirs take over and to ensure the estate-tax liability is manageable. At the same time, with the enormous influx of people moving into the West, it will be difficult for ranchers to avoid the temptation of selling out.

Wright placed his operation into a limited liability company (LLC). He owns it in partnership with various members of his family. This provides his family with some measure of protection against inheritance taxes.

Ranchers David and Gerry Little of Emmett, Idaho, did much the same thing. They worked hard for decades to successfully transfer much of their vast ranching enterprise to their children through limited partnerships (LPs). The children continue to operate through three separate businesses.

David Little says: "I remember once asking a friend, 'What makes a successful rancher?'

"He replied, 'When he dies. If he dies when times are good, he's a success. If he dies when things are tough, he's a failure.' You know, when you really think about it, that's really true."

Other ranchers are using conservation easements, which are donated or sold by the landowner to a land trust, permanently removing development rights from the land and providing some estate- and income-tax benefits because they reduce the value of property and subsequent inheritance taxes.

Trouble is, they don't help much when it comes to keeping cash-poor producers in business. Herold's pastures, for example, would fetch upwards of $1,500 to $10,000/acre if he were to sell them today.

"The trouble for ranchers is, if they want to continue in the ranching business, they might have to sell out because of the inheritance tax," says Gary Sprung, an environmental and open-space activist from Crested Butte, Colo. "In the case of estate taxes, the government values land at development value, not agricultural value."

In Herold's case that could potentially mean a tax liability in the millions of dollars for his heirs.

A solution may be found in Colorado's Gunnison River Valley, 250 miles west of Denver. Here, the Gunnison Legacy Fund (GLF) has developed a creative way of protecting agricultural lands and paying ranchers for their development rights.

In fact, GLF doled out nearly $3 million in its first five months to five different ranchers, who decided to sell or to donate development rights on 3,000 acres of their land to land trusts. Most of the money comes from Greater Outdoors Colorado, funded through the state's lottery, and the federal Farmland Protection Act.

Initiated three years ago, GLF is the brainchild of rancher Bill Trampe and environmentalist Susan Lohr. Dan Pike of Colorado Open Lands has provided technical expertise.

"Let's say we have a ranch that's worth a total of $1.5 million, and the development rights on this property are worth $1 million," Pike explains. "The rancher agrees to sell us 75% of his development rights for

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$750,000 cash, which in most cases is capital-gains income. The rancher then donates the remaining $250,000 of development value to the land trust, which is used as a deduction against the cash payment. They're going to face about 20% tax on that $750,000, but the donation saves roughly one-third on the taxes. They will reduce their taxes from $150,000 to $100,000, plus use the remaining $650,000 to pay off debt or buy more ground."

The other benefit is that removing development rights deflates the value of a property, making estate taxes more manageable. Reducing the value of the property by selling and donating development rights allows the ranching family to pay no estate taxes on the property. "It's pure savings," Pike says.

The long-term challenge for the Gunnison group — and for other ranching communities in similar efforts — will be raising money to meet demand. Already, dozens of Gunnison ranches are on the docket to put their lands under easements — and get paid for doing so. All told, Trampe estimates there are between 50,000 and 60,000 acres of privately owned land — worth about $40 million in development rights — that potentially could be protected in the valley. Virtually all of the ranchers in the valley have shown interest in participating in the program at some point.

To support the land-preservation program, Gunnison County last year established a local sales tax to raise revenues for open space. The tax, equal to 0.5% of sales, could raise as much as $300,000/year, Trampe says, although not all of it will fund GLF programs. Local businesses have started a voluntary checkoff program through which they donate up to 1% of gross sales to the open-space effort. Money is split between the GLF and another local land trust.

Gary Sprung, who's been actively involved in protecting agricultural lands near Gunnison, believes it will take much more than local conservation efforts to save what's left of the West's diminishing ranchland. He believes Congress should eliminate estate taxes on farms and ranches that will commit to remaining in agricultural production for a set period of years. He also believes ranchers should do more to get beef out of the commodity business, branding it with a region-specific label and adding value to the end product.

"There is a major public benefit by keeping ranchland in ag production," Sprung says. "Government should be finding ways of encouraging, not discouraging, families to remain in ranching. But I would go further. I hope that various efforts to make ag more profitable would succeed. I wish that our local ranchers would put more energy into developing their product into a specialty product, such as Gunnison Country Beef, instead of continuing to sell their cattle as a commodity."

People are willing to spend more money if they are supporting open space and local ranchers, Sprung says.

The Herolds have considered selling their operation and moving it where there's more agricultural infrastructure. But the mountains around Yampa are home, and Herold plans to stay despite the high land values and the influx of newcomers. The memories of parents, of family and of childhood are too much to leave. Plus the operation is productive and efficient, providing a good living for him and his family for many years.

"This is one of the few ways in life that you're still your own boss," Herold says. "If you wanna fix fence today, you can. You control your working day and your working hours. Not that I dislike people, I enjoy being outdoors, working with the stock. Despite it all, the whole overall atmosphere of ranching is still really good, and we hope to stay in it." AJ