

NEBRASKA COOPERATIVES

Trends in Farming Operation Legal Entity Choice and Implications for Cooperatives

By Gregory McKee

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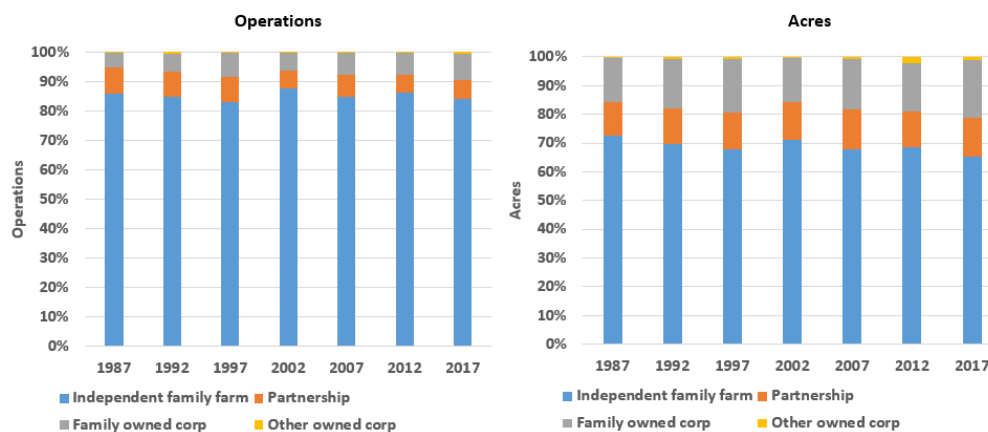
Farm legal entity choice (an individual operation, partnership, or corporation) affects farm program eligibility requirements and farmland transfer to the next generation. It may also affect how they receive value from agricultural cooperatives, such as an operation's equity and patronage distribution, and member incentives for participating in cooperative governance. Cooperatives can deliver value to farm entities of many types.

This document describes changes in the contribution of the legal entity types to Nebraska agriculture and what this means for cooperatives. Information is from USDA Census of Agriculture data between 1987 and 2017. Farming operations are defined as generating \$1000 or more in sales. The Census distinguishes only among the four entity types; information about LLCs, trusts and so forth are not available.

Changes in Land Distribution among Entity Types

Individual family farms have steadily comprised about 85% of all operations since 1987. The remaining 15% has shifted from mostly partnerships in 1987 to mostly family-owned corporations in 2017. Non-family-owned corporations comprise a few percent of all operations. In 2017, 28.9 million acres (64%) was operated by independent family farms, down from 1987 acreage. Acres are shifting into, primarily, family-owned corporations. In 2017 family-owned corporations operated on about 20% of Nebraska farmland (Figure 1).

Figure 1. Share of Nebraska Farming Operations and Acreage in Each Entity Type



Operation Size and Sales among Entity Types

Average operation acreage has grown for all legal entity types during the last 30

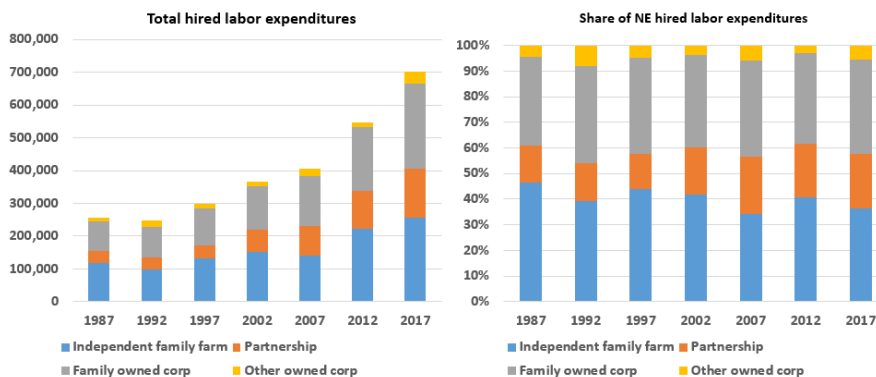
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years. In 2017 about 10% of independent family farms were of 2000 or more acres. Average partnership acreage has increased the most, of the four entity types, during the last 30 years. Average sales volume increased for all legal entity types. Today, a majority of Nebraska farm output sales volume comes from partnerships and family owned corporations.

Total input expenditures increased since 1987 for all entity types. Independent family farms generate about 50% of all input expenditures, although this share has declined over time. Family owned corporations increased their share of expenses from 28% in 1987 to 31% in 2017; partnerships increased their expense share from 14% in 1987 to 19% in 2017.

Notable among input costs is the shift in hired labor expenses. The share of statewide hired labor expenses from family farms declined from 46% to 35%. Partnerships and family owned corporations generate most hired labor expenditures (Figure 2).

Figure 2. Share of Hired Labor Expenditures in Each Entity Type



Commodity Marketing by Entity Type

Partnerships and family owned corporations are becoming increasingly important operation types for commodity sales.

Corn and soybeans: The

sales share of independent family operations has declined from 75% in 1987 to 63% in 2017. The number of corn producing partnerships declined 40% and the number of family-owned corporations producing corn increased 54%, but the respective sales shares of both types of entities has increased. Similar trends have occurred for soybean sales.

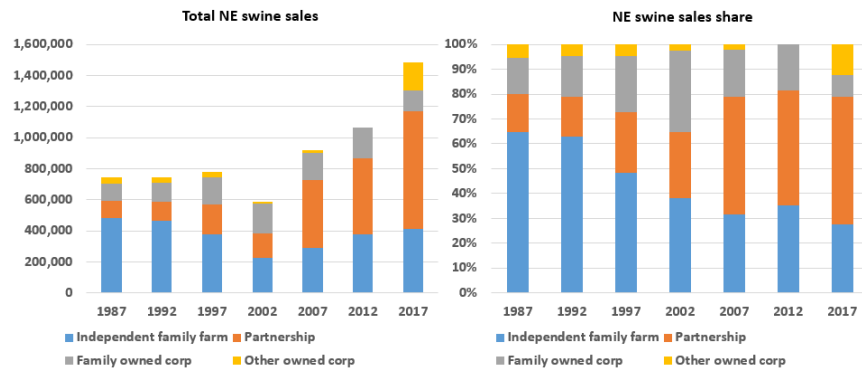
Cattle and calves: The number of independent family owned, partnership, and family owned corporation cattle operations declined significantly relative to 1987 levels. The sales shares of independent family operations declined from 41% to 35%; the statewide sales share for partnerships increased (from 14% to 20%) as did the sales share of family owned corporations (from 37% to 43%).

Swine: The number of independent family owned, partnership, and family owned corporation swine operations declined by 91%, 90% and 78% relative to 1987 levels. Statewide sales shares

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shifted from independent family farms to partnerships during this period, with partnerships accounting for 51% (\$0.4 billion) of swine sales volume (Figure 3).

Figure 3. Total Swine Sales and Sales Shares by Entity Type

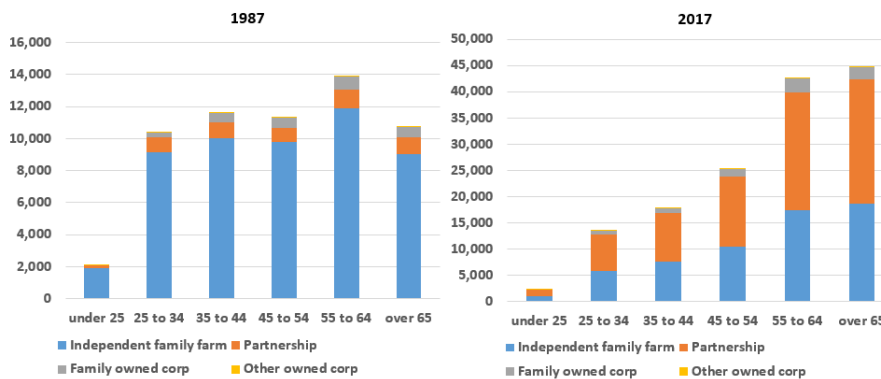


Nebraska Farm Operator Age Distribution

More and more Nebraska farm operators participate in partnerships, as measured by the share of operators in each type. The largest share of “young” (35

years and under) producers operate independent family farms (50%) and 41% operate in partnerships (Figure 4). If senior and junior operators work together in partnerships, it may be that farm succession is occurring through this type of legal organization, as observed by the increasing trend in number of operators in partnerships across successively older age groups.

Figure 4. Number of Operators, by Age, in Each Entity Type



Summary and Discussion

Farm legal entity choice is changing among Nebraska farming operations. Family-owned corporations and partnerships are increasingly prominent

in acreage and sales.

Each operator balances pursuit of individual goals and the goals of a farm entity. Increasing numbers of multi-operator entities, and their growing importance in Nebraska agriculture, affect how cooperatives provide value to members. This may include circumstances typical to challenges arising from member heterogeneity, such as:

- Multi-person farming entities may enjoy enhanced purchasing or marketing economies beyond those of individual family farming operations,

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- The scope and quality of products and services desired from the cooperative may vary based on entity type,
- Minimum purchase requirements may favor a particular composition of individual and multi-operator entities within the membership,
- Equity redemption to members that are not natural persons can create unique incentives, especially when operator age varies within the multi-person entity,
- Participation in governance may be relatively more appealing to operators in individual entities when cooperative membership is small, and
- Relatively young operators may value profit distribution or fixed asset investment, by the cooperative, differently from senior operators.

Cooperatives can enhance their ability to deliver value to members, in light of these trends, by adopting governance structures to meet the needs of different entity types, establishing innovative ways to finance the cooperative, and organizing a corporate structure (business units) that specialize in meeting member needs.