

California Corporate Farms: Myth and Reality

Hoy Carman

California corporate farms have grown in terms of numbers, share of all farms, size, asset values and product sales. The average California corporate farm continues to be larger than the average single proprietor and partnership farm but corporate farms are represented in all of the size, asset and product sales categories, from smallest to largest. Corporate advantages available to large family farms continue to encourage incorporation.

Many agricultural observers view corporate farms as a serious threat to the survival of family farms and the communities that support them, encouraging legislators in nine mid-western states, including Oklahoma, Nebraska, North Dakota, South Dakota, Wisconsin, Minnesota, Kansas, Missouri, and Iowa, to enact anti-corporate farming laws. California agriculture has not shared this view and the proportion of California farms that have incorporated has increased over time with 5,750 corporate farms (7.1%) out of the total of 81,033 farms in 2007. Just over 80% of California corporate farms are classified as family held corporations and 93.7% of all California farm corporations have fewer than 10 shareholders. This article uses data from the U.S. Department of Agriculture's 2007 Agricultural Census to describe the changing organizational structure of California farms over time, together with comparisons of characteristics of corporate and non-corporate

farms. As is often the case with generalities, some perceptions of corporate farming are not supported by the data.

Choice of Legal Organization

A farmer's choice between organizational alternatives (single proprietorship, partnership or corporation) has operational, legal, and financial considerations and implications. Without going into detail, the corporate form of organization may offer advantages for inter-generational transfer of farm assets, income tax planning, employee benefit programs, and risk management. At the same time, corporate organizational, operational, and reporting requirements require time, legal and accounting assistance, and other costs not incurred by the sole proprietor or partnership. Detailed discussion of the pros and cons of the alternatives are beyond the scope of this article.

The number of corporate farms in California has been increasing over time. There were 2,601 corporate farms in California in 1974, more than double the 1,212 reported in 1969. Note in table 1 that corporate farm numbers grew to 5,750 out of a total of 81,033 California farms in 2007. The increase in corporate numbers during the most recent two decades was much slower than occurred from 1969 through 1987.

A Comparison of Family and Corporate Farms

A comparison of California corporate farms with individual proprietor family farms shows that, on average, corporate farms are substantially larger, have more assets, and higher product sales. For example, individual proprietor family farms had average sales of \$162,179 in 2007, they had an average of 200 acres of land, the estimated market value of land and buildings averaged \$1,292,699, and the estimated market value of all machinery and equipment averaged \$63,809. In contrast, California corporate farms had average sales of \$2,187,321; their average size was 784 acres; the estimated market value of land and buildings averaged \$6,315,180; and the estimated market value of all machinery and equipment was \$396,451. Net cash farm income tells a similar story. Of the 64,001 individual proprietor family farms, 24,963 (39%) reported net income averaging \$127,443 per farm while 39,038 reported net losses averaging \$27,785 per farm. For the 5,750 corporate farms, 3,399 (59%) reported net income averaging \$967,108 while 2,351 reported net losses averaging \$172,014 per farm.

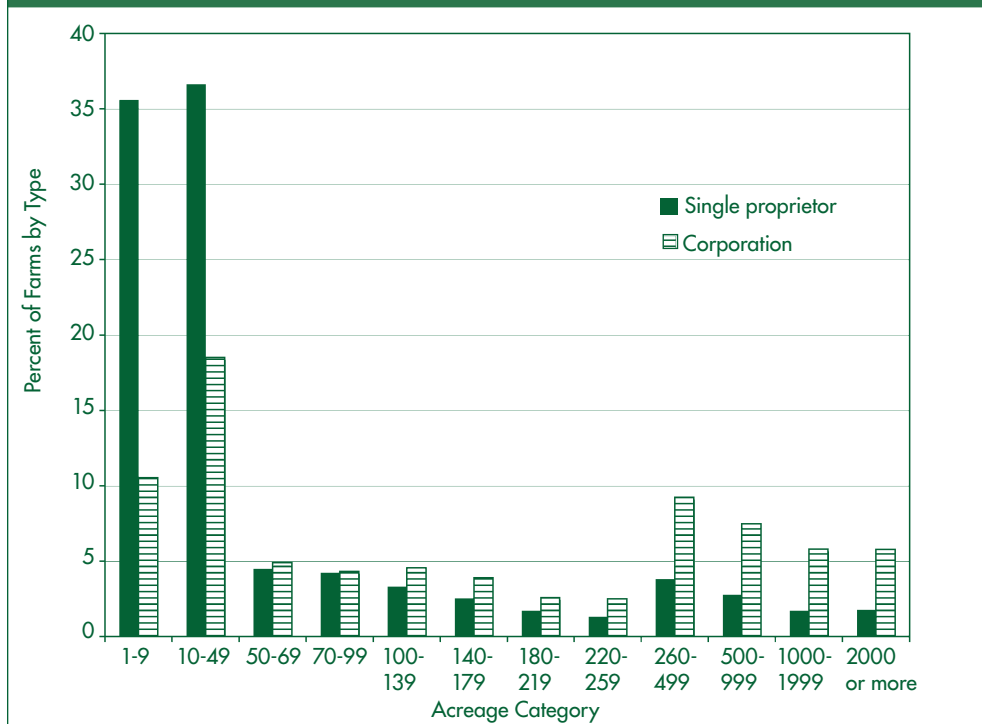
All individual proprietor family farms are not small and not all

Table 1. Number of California Farms, Number of Corporate Farms, and Corporate Farms Proportion of Total Farms, Census Years 1978 through 2007

	Census Year						
	1978	1982	1987	1992	1997	2002	2007
Total farms	73,194	82,463	83,217	77,669	87,991	79,631	81,033
Corporate farms	3,871	4,849	5,367	5,067	5,504	5,070	5,750
Corporate farm %	5.29%	5.88%	6.45%	6.52%	6.26%	6.37%	7.10%

Source: USDA, Census of Agriculture for each year noted.

Figure 1. Acreage Distribution of Single Proprietor and Corporate Farms, California 2007



corporate farms are large. For example, there were 2,954 California farms with an estimated market value for land and buildings of over \$10 million each. Of these, 1,163 were individual proprietor family farms, 895 were partnerships, and 805 were corporations. In terms of income, there were 5,693 California farms with 2007 sales and government payments over \$1 million. Of these, 34.2% were single proprietor farms, 33.2% were partnerships, and 30.3% were corporations. There were 1,365 California farms with sales and government payments over \$5 million. Of this highest sales category, 25.5% were single proprietor farms, 34.4% were partnerships, and 37.9% were corporations.

At the other end of the distribution, 148 corporate farms had a total value of land and buildings of less than \$50,000, and another 133 fell in the range of \$50,000 to \$100,000. Looking at products sold and government payments, 42,956 (67%) individual-proprietor family farms had total product sales and government payments of less than \$25,000

while 1,318 (23%) corporations also had total product sales and government payments of less than \$25,000. In fact, 595 corporations (10.3%) had total product sales and government payments of less than \$1,000.

Each type of legal organization has farms in both the smallest and the largest size, income, and value categories. While the statistical distribution of measured characteristics for each legal type of farm covers the full range of measured sizes, incomes and values, the shape of each distribution differs significantly from a normal distribution. The percentage distribution of single proprietor and corporate farms by acreage category, shown in figure 1, is typical.

Farm Typology

The Economic Research Service, USDA, has developed eight farm typology categories. There are two major groupings of farms: five subcategories of small family farms with sales of less than \$250,000, and three subcategories of other farms. The subcategories are shown in table 2 with the number of single proprietor, partnership, and

corporate farms in each subcategory. The market value of agricultural product sales varies by farm type. Limited-resource and farming occupation/lower sales farms have total sales less than \$100,000; farming occupation/higher sales farms have sales between \$100,000 and \$249,999; retirement and residential/lifestyle farms have sales of less than \$250,000; large family farms have sales between \$250,000 and \$499,999; and very large family farms have agricultural product sales of \$500,000 or more. Nonfamily farms include nonfamily corporations and farms operated by hired managers.

The numbers and proportion of farms by type for each structural category make interesting comparisons. For example, limited resource, retirement, and residential/lifestyle farms made up 1,166 out of 5,750 (20.3%) corporate farms; 3,804 out of 9,552 (39.8%) partnerships; and 45,557 out of 64,001 (71.2%) single proprietor farms in California. While 2,386 corporations (41.5%) are classified as nonfamily farms, single proprietors and partnerships together (with 3,822 farms) have more farms in the category. Single proprietors and partnerships each have more farms in the large and very large family farm categories than do corporations (table 2).

Corporate Farm Activities

Corporations are more prevalent in some production sectors than in others. Overall, corporations account for 7.1% of all California farms, but they make up 22.0% of all greenhouse, nursery, and floricultural operations, 16.1% of vegetable and melon farms, 9.5% of oilseed and grain farms, and 9.1% of cotton farms. Corporate fruit and tree nut farms are at the average of 7.1%, as are poultry and egg farms, while all other sectors are below the average. The largest numbers of corporate farms, 2,674 out of the total 5,750, are fruit and tree nut farms.

Corporate farms accounted for \$12.58 billion (36.9%) of California's \$34.125 billion of 2007 product sales and farm payments. Corporate sales shares were 72.6% of total greenhouse, nursery, and floricultural sales, 69.9% of poultry and egg sales, 49.5% of vegetable and melon sales, 37.0% of cattle and calves sales, 35.5% of cotton and cottonseed sales, 34.6% of fruits and tree nuts sales, and only 8.8% of milk and other dairy product sales.

California corporate farms employ more farm labor than do individual and family farms, partnerships, or other (cooperative, estate, trust, institutional, etc.) farms. During 2007, 4,137 corporate farms employed 175,836 workers and paid over \$3.26 billion in payroll and contract labor expenses. This was 39% of total farm workers and almost 45% of total payroll and contract labor expenses. Not surprising was that 1,628 (28%) of California's 5,750 farm corporations were operated by hired managers. Hired managers operated only 2.8% of individual and family farms and 14.6% of partnerships.

Corporate farms are involved in the same activities as other California farms, including organic crop production and sales. Organic farmers are often characterized as small-scale individuals with a passion for protecting the environment, a description that is not typical for corporate farmers. While individual and family farms substantially outnumber corporate farms and have more acreage in organic production, corporate farms dominate organic sales. There were 3,515 California farms producing organic crops in 2007. Of these 2,596 were individual and family operations, 456 were partnerships and 367 were corporations. In terms of organic crop acres per farm, individual and family operations averaged 57.87 acres per farm, partnerships averaged 156.78 acres per farm, and corporations averaged 374.19 acres per farm. Overall, corporate farms had total organic

Table 2. California Single Proprietor and Corporate Farms by ERS Farm Typology, 2007.

Farm Typology	Single proprietor	Partnership	Corporate	Total
	----- number of farms -----			
Limited-resource farms	7,897	654	201	8,752
Retirement farms	15,532	1,349	328	17,209
Residential/lifestyle farms	22,128	1,801	637	24,566
Farming occupation/lower sales	8,791	975	363	10,129
Farming occupation/higher sales	2,245	500	204	2,949
Large family farms	2,017	775	405	3,197
Very large family farms	2,959	2,108	1,226	6,293
Nonfamily farms	2,432	1,390	2,386	7,938*
Total	64,001	9,552	5,750	81,033*

* Includes 1,730 other farms (cooperative, estate or trust, institutional, etc.)

sales exceeding \$272 million in 2007, accounting for over 41% of California's organic sales of \$656.8 million.

Concluding Comments

California's average corporate farm has more acreage and higher sales than the average partnership or the average individual proprietor farm. One must be careful, however, about generalizing from these averages. While the majority of California's farms with the smallest land holdings and product sales are individual proprietor farms, some are also partnerships and corporations. Just over 20% of California's farm corporations are limited resource, retirement, and residential/lifestyle farms, but these same three farm types account for 71.2% of all single proprietor farms. At the same time, 23% of farm corporations and 67% of individual proprietor family farms had total product sales and government payments of less than \$25,000. The distributions of acreage, product sales, value of land, buildings and equipment, and farm types span a similar range of values for single proprietors, partnerships, and corporations. If one were to randomly choose a farm from among all California farms with a total value of land and buildings of over \$10 million, the probability that it will be a corporation

is 27.3%; the probability that it is an individual proprietor family farm is much higher at 39.4%; and the probability that it is a partnership is 30.3%.

Most of California's farm corporations are owned and operated by farm families. These corporate family farms range in size and product sales from very small to very large; they grow the same crops as do single proprietor family farms; and as subchapter S corporations, they pay income taxes at the individual rather than the corporate rate. Incorporation continues to provide a framework for resource ownership as well as the allocation of income, control and risk, and it can be an important tool for estate planning and the inter-generation transfer of the farm business. For these reasons, one can expect further increases in the number of California farm corporations with the prime candidates being larger family farms interested in growth and the extended business life of the family farm firm.

Hoy Carman is an emeritus professor in the Department of Agricultural and Resource Economics at UC Davis. He can be reached by e-mail at carman@primal.ucdavis.edu.