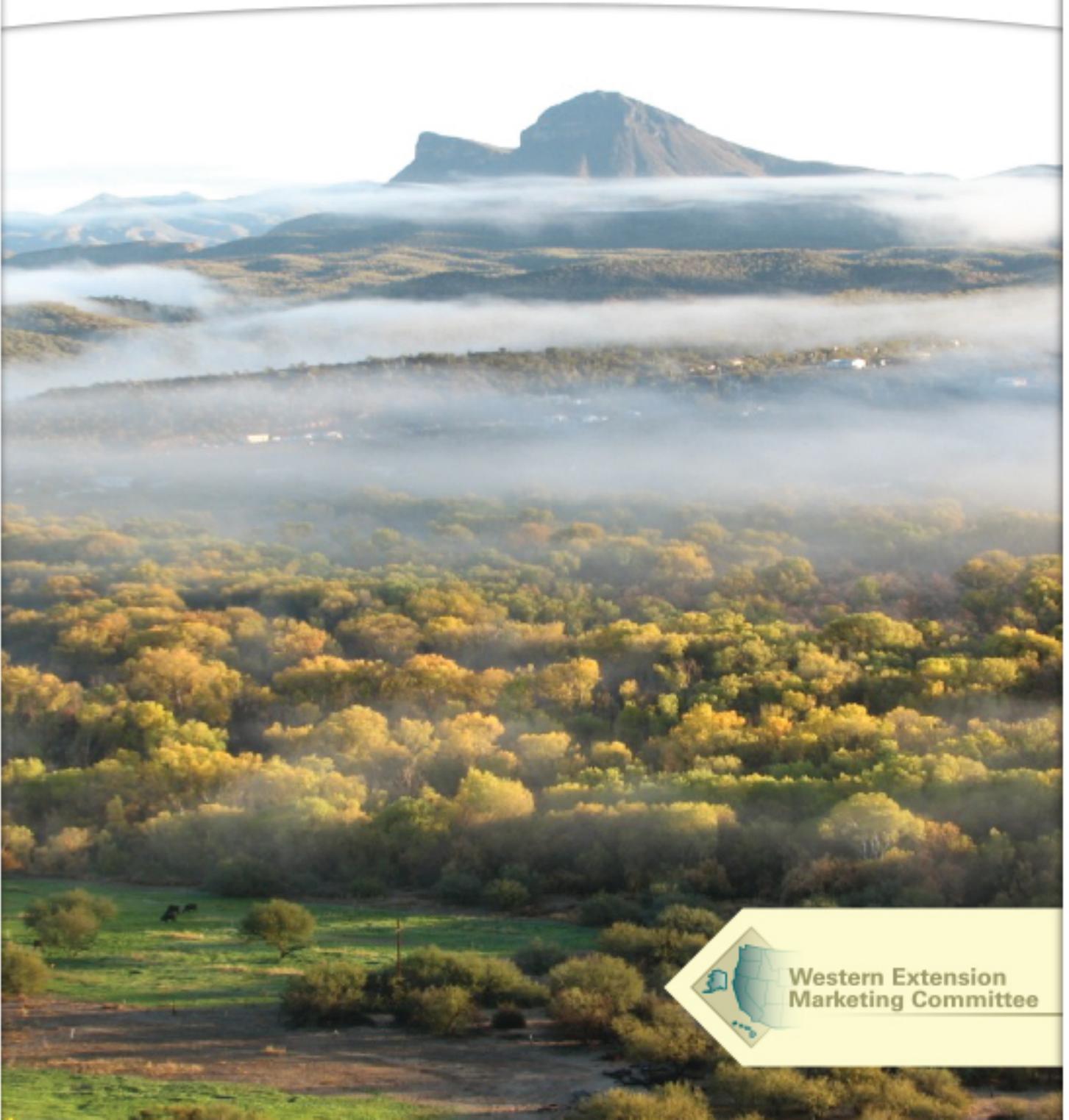


WESTERN FARM AND RANCH TRANSITION STRATEGIES



Western Farm & Ranch Transition Strategies

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Table of Contents

Baker Ranch	1-1
Susan Slocum, Assistant Professor, George Mason University	
Cole Creek Sheep Company	2-1
Bridger Feuz, Extension Educator and Livestock Marketing Specialist, University of Wyoming	
Colorado Ranch	3-1
Norman Dalsted, Professor and Extension Economist, Colorado State University	
Guild Ranch	4-1
Bridger Feuz, Extension Educator and Livestock Marketing Specialist, University of Wyoming	
Hecht Creek Ranch	5-1
Cole Ehmke, Extension Specialist, University of Wyoming	
Hull Dairy	6-1
Susan Slocum, Assistant Professor, George Mason University and Kynda Curtis, Associate Professor and Extension Specialist, Utah State University	
Double Check Ranch	7-1
Russell Tronstad, Professor and Extension Specialist, University of Arizona	
Stennes Orchards	8-1
Karina Gallardo, Assistant Professor and Extension Specialist, Washington State University	
Westendorf Family Farm	9-1
C. Wilson Gray, District Extension Economist and Extension Professor, University of Idaho	
Wong Farms	10-1
Russell Tronstad, Professor and Extension Specialist, University of Arizona	

Wong Farms

Pioneer Railroad Worker to Modern Cotton Corporation

Russell Tronstad, Professor and Extension Specialist, University of Arizona

Background

The Southern Pacific Railroad arrived in Tucson in 1880. Not long afterward, Brian Wong's great-grandfather, a Chinese immigrant working on the railroad, also came to Tucson. Chinese laborers were an invaluable labor force in the railroad-building era of the 1880s, as much of the larger Anglo labor class found employment in mining and agriculture more profitable and congenial (Doolittle, 1999). After working on the railroad, Brian's great-grandfather established a grocery business in downtown Tucson. His son, Bing K. Wong Sr., later took over the business and identified a potential market for his goods in the Marana/Red Rock area north of Tucson. Today's thirty-minute Interstate drive was then an all-day wagon trip, so Bing Sr. began delivering wagonloads of food goods that came in on the train to farmers in the area. As a result of his year-round contact with these farmers through his food deliveries, Bing Sr. became intrigued by farming. He purchased a relatively small farm in 1939 and planted his first crops to different varieties of barley and vegetables. After two unsuccessful years of barley and vegetable crops, he planted his first crop of Pima cotton in 1941. He planted the crop relatively late, so it went into December 1941 before the crop could be harvested.

The late harvest paid off when the Japanese bombed Pearl Harbor on December 7, 1941, and the market for cotton and other agricultural products changed overnight. Traditional export markets were cut off, and the federal government deemed cotton a strategically important commodity for the war effort. The U.S. military used Pima cotton in World War II airplane wing covers, tires, parachutes, and other applications because its fibers are much longer and stronger



than those of Upland cotton. Since most of the other farmers in the area had already harvested and sold their cotton, they were not able to benefit—as the Wong family did—from the price spike that followed the declaration of war. Bing Sr. sold his entire crop for over \$1 per pound, while most farmers in the area had sold their crops for less than fifteen cents per pound.

Expansion and Contraction Years

The financial gains from selling the entire cotton crop at a high price allowed the Wong family to buy more farmland in the area and further north in Pinal County. By the 1950s, the Wongs had greatly expanded their operation to fields within a 100-mile radius from the original farm for a total of over 50,000 acres of irrigated land. In Chinese culture, the oldest son is expected to lead and direct the next generation of the family, whether the family owns a restaurant or farm. In an effort to lead and manage the burgeoning farmland interests, Bing Sr.'s oldest son, Ralph Sr., purchased an airplane to more easily travel between land holdings.

Despite Ralph Sr.'s best efforts, the operation still experienced significant turmoil. Even in an era of rapid agricultural mechanization, the larger, more spread-out strategy was causing the Wongs to lose money on several of their farms. In 1960, the Wongs sold off their outlying operations and scaled back to their original headquarters outside Marana. The family farm incorporated in 1965, when Bing Sr. was in his early sixties, and his sons bought out his shares shortly thereafter. The Wongs divided up responsibilities among the four brothers during this period; Ralph Sr. led field operations, David and Bing Jr. worked in the office, and Ron (a "latecomer" born in 1958) managed inventory and operations. Bing Jr.'s accounting degree and CPA made him a natural fit for the office. David's degree is in agronomy and Ron's degree is in agribusiness/finance.

Bing Sr. believed that it was best to "sell out" to his sons, but unfortunately, Ron, the youngest of the four boys, remembers the years that followed to the early 1970s as years of great conflict and turmoil for the family farm. Commodity prices were relatively low, and the best direction for the farm was unclear. Annual U.S. cotton prices averaged \$0.25 per pound from 1965 to 1972, then rose to an average of \$0.58 per pound from 1973 to 1988.

Legal/Lender Challenging Years

In 1988, the Wongs' farm faced a challenge not from low commodity prices but from their lender. During the high-inflation era of the 1970s, the Farm Credit Administration adopted a policy of lending more on collateral rather than on the cash flow of agricultural goods produced. Real estate prices escalated during the 1970s and early 1980s, making it relatively easy for producers to obtain farming loans. The Federal Reserve moved to restrictive monetary policies to combat double-digit inflation in the mid-1980s. As a result, real estate prices and inflation began to decline, but interest rates were still at double-digit levels. These conditions combined with Farm Credit Administration policies resulted in a liquidity crisis for Farm Credit Services. To preserve liquidity for the majority of their accounts, in 1988 the Farm Credit branch servicing Arizona sold the notes from their eight largest accounts to a company in Texas for about \$0.80 on the dollar. Unfortunately, the Wongs were among the accounts sold, even though the operation had been scaled back considerably from the 1950s.

Attorneys quickly became involved and advised the Wongs to file for bankruptcy or join a lawsuit to fight the sale. Four of the eight chose to fight it out in court, while the rest (including the Wongs) chose the bankruptcy route. All four entities that went to court eventually liquidated, and two of the entities that filed for bankruptcy were still in bankruptcy more than ten years later. The Wongs were able to emerge from bankruptcy in the early 1990s.

In order for the Wongs' subchapter C Corporation to become liquid again, they had to sell 1,400 acres of land. Fortunately, much of their farmland is within a half-hour commute of the Tucson metropolitan area, so real estate prices were buoyed by development and water rights potential rather than simply farmland value.

A New Era with Water

The Wongs still have approximately 5,000 acres of irrigated land in the Marana area, and the subchapter 11 filing made them take a harder look at where farming was going in the mid-1990s. Central Arizona Project (CAP) water from the Colorado River arrived in southern Arizona around the same time. In 1986, the Arizona Legislature established the Underground Water Storage and Recovery Program, which allowed entities with surplus water to store it underground and withdraw it later. In 1994, the Legislature further defined the recharge program with the Underground Water Storage, Savings, and Replenishment Act. In addition to receiving ground water credits from direct recharge, credits could now be obtained by using surface water rather than pumping from the aquifer on a well with an established water right.

Although Phoenix had been drinking CAP water for years, Tucson's well water was slightly alkaline and CAP water was slightly acidic. Organic material in Tucson's plumbing reacted to the new CAP water and caused uprooted pipe debris, colored water, and even leaking pipes. Tucson voters approved the Water Consumers Protection Act in 1995 to prevent CAP water from being piped directly to homes. To meet requirements of the Act, Tucson Water developed the Central Avra Valley Storage and Recovery Project (CAVSRP) to recover a blend of Colorado River water and groundwater.

CAVSRP provided an opportunity for the Wongs to diversify their revenue from agriculture by receiving compensation for water conveyance through their ditch and running the pilot recharge facility. Although the site has remote monitoring, it is more economical for Tucson Water and the Arizona Department of Water Resources to hire the Wongs to change water gates and valves than send a Department employee to make the change.

Since the 1994 Replenishment Act allowed entities to receive water credit for using CAP water rather than pumping well water and the 1995 Water Consumer Protection Act prohibited the direct use of CAP water for residential water, farmers in the Marana area were being encouraged to utilize CAP water through a lower pricing structure. Tucson Water received some immediate return from selling water at a reduced rate to farmers in the area, but they received no

payment for the water that went to direct recharge, even though both recharge methods built credit for water that could later be withdrawn and sold to residential customers. While indirect recharge through irrigation accrues groundwater credits at a lower rate, it nonetheless greatly expanded the recharging capacity for Tucson to utilize its CAP allocation of Colorado River water.

With Tucson looking to use their CAP allocation fully, the Wongs and other farmers in the area made the switch from well to CAP water for irrigation because the “blend price” made it profitable for them to stop pumping from their wells and switch to CAP water. CAP water also allowed them to flood irrigate with larger heads of water and cover a larger area over a limited time span, reducing some of their labor and crop water constraints.

The Wongs have served on the advisory board of the Agricultural Research Service over many years. In conjunction with the University of Arizona, they have tried many different experimental crops, from algae and guayule to a special type of tumbleweed with potential for making fire logs. Although the Wongs have not planted Pima cotton for several years, Upland cotton still accounts for about 70% of their crop acreage mix. Wheat, a good rotation crop, makes up the rest of their remaining crop mix. In 2013, they planted a small amount of organic wheat with cooperation and encouragement from Native Seeds/Search. The hand weeding has been costly for them, so they doubt that they will plant more organic wheat until they can better address the weed issues.

Fourth-Generation Leadership

Managing the Wong family corporation has always been a big responsibility. Brian, a recent graduate of the Department of Agricultural and Resource Economics at the University of Arizona, was recently elected president by the Board of Directors, replacing Bing Sr. At the age of fifty-four, Ron argued to the Board that it was an appropriate time to bring the next generation into management. Ron feels that he will be able to assist Brian better in the next ten years than if they had waited another five to ten years to transition. Even though family members own all shares of the



company, communicating aspects of running the farm can be more difficult now because the majority of the shares are held by nonworking owners. Even though Brian is president, he doesn't own any shares.

Brian's service on the board of the Citizens Water Advisory Committee (CWAC) has helped prepare him for his tenure as president. This committee oversees the rate-making structure for Tucson Water, which has a \$150 million annual budget. The way that CWAC analyzes numbers and the organizational structure of Tucson Water provided a management experience not obtainable in the classroom or even by running a farm operation.

Farming pays the bills, but the Wongs also acknowledge that they must live up to a significant legacy. Members of the family often run into members of the Tohono O'odham Nation who know the Wong family by name and reputation. When Ron's father was in the grocery business and times were tough for employment, the Wongs extended loans to Tohono O'odham members to buy groceries. Families that were unable to pay back their loans in cash worked on the farm to pay it off. The Wongs hired many workers to pick cotton for \$5 day. Tohono O'odham families today remind the Wongs that their family provided kindness and food when they were in great need and many others did not. They are grateful for what earlier generations of Wongs did for their families. Upholding the Wong name is part of transitioning the family farm to future generations.

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