36. AIM! (The Plan)

In the 'big bang' nature of our project, *"Fire, ready, aim!"* was how we were forced to prioritize planning (Chapter 23).

Based on the scheduled debt service and down payments for the three larger ranches (Ferree, Koch and the Brown Place) and the smaller Brackenbury properties that Sandy Oskamp and Will White were finessing for us (Chapter 34), we needed a plan to raise the capital to meet the project obligations as they came due.

As originally suggested by Sam Addoms, we adopted a limited partnership[1] structure (there really wasn't another logical choice). More importantly, we decided to involve several investors, as opposed to looking for one 'right' partner. This decision was more important than we realized at the time. Looking back, it was probably the right choice. Even though, in the course of fundraising, we met more than one interested investor with the financial horsepower to be 'the one'.

Considering the hard times that were to come, I don't think our preservation focus could have survived the influence of a powerful single investor – playing mice to the cat[2] – although that could have been simpler and much less expensive legally.

Besides, we were up against time deadlines that had to be met to keep our project together. We had no room for error. Once the details of our 13,000-acre acquisition became public, both Clarence Koch and some of the partners in the partnership that had agreed to sell us the Brown Place began to experience seller's remorse.[3]

"Sell the sizzle, not the steak" the old salesman's mantra goes. Easier said than done. Sizzle can be elusive and true salesmanship is a rare talent. Had either Clarence or the Brown Place partners found a legal way to get out of their contracts, there wouldn't have been much sizzle left.

Of course, a good steak helps. 1981-1982 was a tough market for selling any kind of investment. The country was in a recession and the Federal Reserve was busy strangling the money supply, causing 6-month CDs to yield over 15% and the Prime Rate to soar beyond 20%. So, if an investor had the money and the stomach to invest, Ron knew the steak had to look darned attractive.

Although its details were complicated enough to require about 100 pages of spreadsheets[4] and legalese, our plan boiled down to a few components.

Three Phases. We decided to break our project into three parts: the Ferree Ranch first, then Koch and Brown.

The Traveler's Insurance Company second mortgage that helped us do the Ferree deal had encumbered our Rabbit Creek Ranch as well (Chapter 23). So we added Rabbit Creek to our first stage[5]. In any case, Ron thought that we would likely curry favor among prospective investors, demonstrating that we were 'all in' by contributing our Rabbit Creek Ranch to the venture.

In retrospect, our project would have been better off if we had been able to keep the Rabbit Creek Ranch out of things. Because it was 'base property' for the Eaton Grazing Permit (Chapter 11), the effect was to put the project in the cattle business by default – yet another layer of complexity to be managed and explained.

Tax shelter. Ron put a lot of effort into massaging the tax aspects of our plan to maximize its attractiveness to potential investors. In that respect, it didn't hurt to have some cows and bulls to depreciate, but the primary source of tax benefits were interest deductions from mortgage payments and interest on promissory notes limited partners would execute as partial purchase price of the partnership investment.

Plan to make a plan. In our 'plan', we had the good sense to admit that we didn't have a plan. But we promised to come up with one in 1986 (five years down the road). The logic of *a plan to make a plan* was that (a) we still had to put the rest of the deal together over the next two years (who knew how that might end?), and (b) the property was so unique that it invited imaginative possibilities that hadn't yet been imagined – but we even thought that preservation might have an economic component.[6]

It was stipulated that the plan presented in 1986 would have to be approved by <u>all</u> limited partners. This was our way of guaranteeing that it would have to be agreeable to those limited partners that wanted to stay in <u>and</u> those who wanted to get out.

The unwritten assumption that underlay this guarantee was that refinancing in 1986 for ranchland would be a ready option[7] to provide funds to implement a plan, including provisions to buy out partners who wanted out.

General Partners. In addition to Jeanne and me, we had a corporate general partner, Judson Cattle Company, that could involve others as officers and directors[8] to provide some depth of management and continuity in case something happened to Jeanne and me.

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[1] A limited partnership consists of one or more general partners, who manage the business and have unlimited liability for the debts and obligations of the limited partnership, and limited partners, who have limited liability (not exceeding their investment) but cannot participate in management.

[2] We actually experienced a dose of that a year or so down the road…(more later)

[3] (stay tuned)

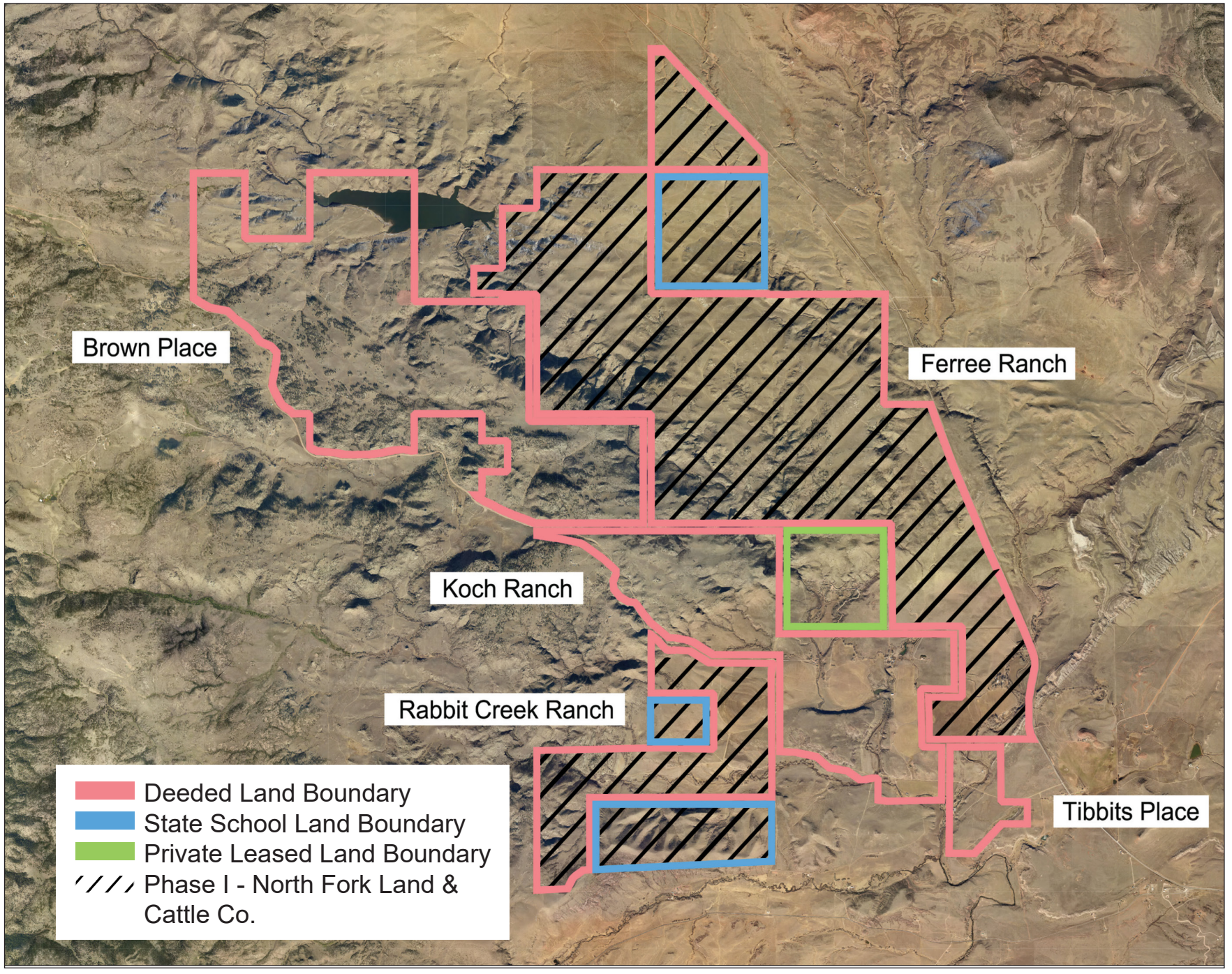
[4] This was just before the advent of the IBM PC, so spreadsheet production was still relatively arduous.

[5] *The North Fork Land & Cattle Co.* limited partnership.

[6] This was back when the use of conservation easements was still an exotic, little-known tax shelter mechanism and land preservation tool.

[7] (this is a clue)

[8] (details to follow)



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