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### **Testimony to the Small Business & Entrepreneur Committee on Succession Planning**

The Honorable Jeanne Shaheen, Chairperson; the Honorable Joni Ernst, Ranking Member; Members of the Committee; and Distinguished Guests,

Thank you for the opportunity to testify today on the critical topic of Succession Planning and the challenges facing small business owners today, especially in rural communities. My testimony comes from my diverse roles as Executive Director of the Calhoun County Economic Development Corp. (CCEDC), as an owner of a family business, and as a dedicated leader engaged in various community and civic initiatives.

My assessment on succession planning in rural Iowa is multifaceted, shaped by my various personal, professional, and policy perspectives.

- **Personal** – Succession planning for my family’s business, Martin Hildreth Company, Inc., is a crucial consideration. Addressing challenges related to retirement and ensuring a smooth transition for our family business is not only a personal concern but also has broader implications for the local community as our business provides essential services.
- **Professional** – As Executive Director of Economic Development in Calhoun County, my role involves assisting and guiding the sustainability and growth of the rural economic area designated as an Opportunity Zone. Succession planning on a broader scale becomes essential for the economic well-being of the entire community. Balancing local businesses’ continuity with the need for innovation and growth is a key aspect of our endeavors. In support of the commitment of local businesses Calhoun County Economic Development is developing a written Strategic Plan to assist us in navigating the challenges of the immediate future.
- **Policy** – Concern for the current state of Iowa, the United States, and the economic future of the nation reflects my policy perspective. Succession planning, in this context, involves considerations for policy advocacy and engagement with political stakeholders to shape a favorable climate for rural economic development.

#### **Personal Perspective**

My family’s business, Martin Hildreth Company Inc., is a three-generation, 70-year-old underground utility contracting business, which faces complexities in transitioning to our third generation. We made the decision to extend our succession plan from three to five years due to the current economic uncertainties, similar to those faced by other rural small businesses. The rising cost of conducting business, including interest rates, supply and material costs, taxes, insurance, ever-fluctuating fuel costs, and wages, significantly impacts our transition timeline. The unknown of continued success of our business in a disproportionately high inflation environment heavily weighs in on our decisions toward a solid succession.

The essential role of our business services in Northwest Iowa adds another factor and layer of responsibility. Martin Hildreth Company maintain several components of critical infrastructure such as sewage and water service lines. This essential role is only compounded during the extreme weather events Iowa recently experienced, underscoring our importance to the community and economy.

Comparing today's challenges to the previous generation's transition in 2009 reveals a significantly more volatile economic landscape. Concerns of inflation, company valuation, and long-term success exacerbates the complexity of succession. To complicate matters, the current national economic climate further amplifies these uncertainties.

### **Challenges beyond Martin Hildreth Company**

My interactions with other business leaders, particularly aging farmers, reveal that these are common concerns and challenges, reflective of broader issues impacting rural economic development:

- **Capital Gains Tax:** Like our business, farmers often prioritize inheritance over selling assets to mitigate capital gains tax (reference: Internal Revenue Code Section 1001). Iowa's recent inheritance tax initiatives (reference: Iowa Code chapter 450, particularly Iowa Code § 450.3) reflect a positive step towards supporting retirees.

The perspective shared by farmers on the transfer of land in succession planning aligns with a common sentiment in the agricultural sector. The concern over capital gains tax often influences decisions regarding the timing and method of transferring land to the next generation. The preference for inheritance over selling to the ultimate successor is a strategy aimed at mitigating the impact of capital gains tax.

It's noteworthy that in Iowa, both the proactive efforts of Governor Reynolds and our state legislature in addressing inheritance taxation reflects a commitment to the creation of a favorable environment for retirees. Striving to be one of the leading states in the nation in which to retire reflects the consideration of financial implications in succession planning and dedication to the preservation of family-owned assets.

- **Program Accessibility:** Many businesses struggle to access relevant programs and grants for operations and growth. A 2023 study by the Rural Policy Research Institute found that 42% of rural businesses lack awareness of available government programs.
- **Workforce Shortage:** The agricultural sector and many small businesses face a scarcity of qualified and available employees. A 2022 report by the USDA National Institute of Food and Agriculture cites a 30% decline in young farmers since 2010, while a 2023 report by the Small Business Administration found that 22% of small businesses struggle to find skilled workers in the uncertain economy.
- **Rising Cost of Business:** Beyond capital gains tax, many small businesses struggle with the rising cost of doing business, including rising interest rates, supply chain disruption, taxes, insurance, high fuel costs, and wages. Already this year the National

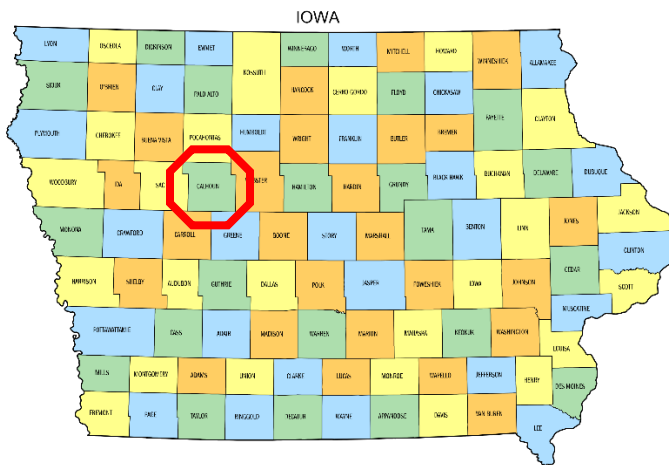
Federation of Independent Businesses reported that 82% of small businesses are concerned about inflation impacting their operations. This uncertainty is compounded by the disproportionate impact of inflation facing rural businesses.

Access to financially positioned employees willing to accept the risks associated with farming is also a recurring challenge. The agricultural sector often requires individuals with a strong financial position to navigate the uncertainties inherent in farming.

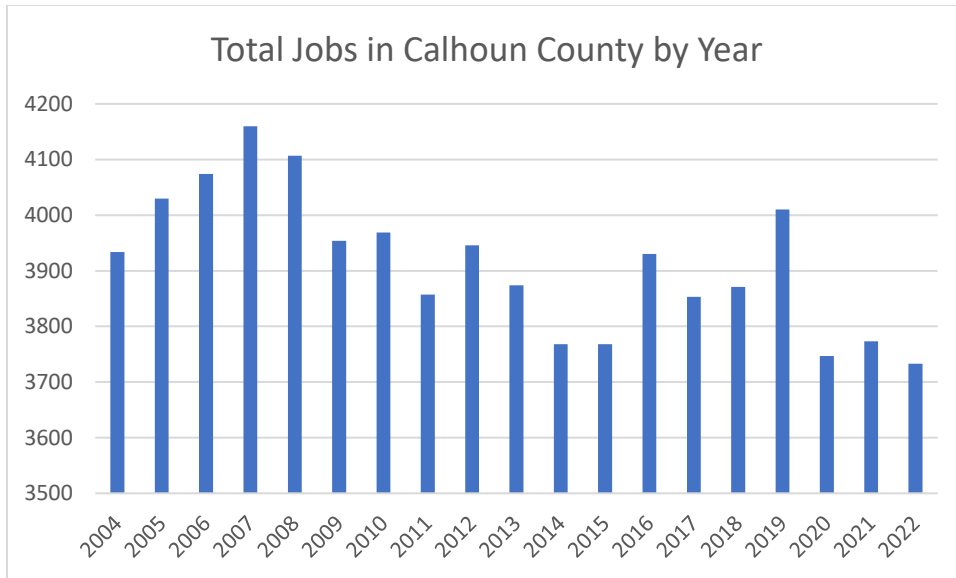
Business leaders express challenges in accessing relevant programs that can support their operations. This includes government programs, grants, or educational initiatives that contribute to the growth and sustainability of rural businesses. The need for education on specific programs is another common theme. Business leaders may require information and guidance on available programs, their eligibility, and how to leverage them for the benefit of their businesses.

### Calhoun County Impact

Calhoun County, Iowa is in the northwest quadrant of the state.



The population of Calhoun County according to US Census Quick Facts April 2020 reflects 9927 residents. The estimated population in July 2022 data reflects a change to 9725 residents. A startling 23% of Calhoun County residents are 65 years and older.



Specifically in Calhoun County, the economic landscape bears the scars of an overall 17-year decline, etched in the steady erosion of businesses and jobs. Available data portrays a stark reality: a once-thriving county is steadily shrinking, with a 5% loss of employees and a startling 15% loss of businesses succumbing to the pressures of current economic conditions, rising costs, changing demographics, and a lack of readily available skilled workers.

The lack of succession of business is a vital factor in the downward trend rippling through our communities, casting a long shadow on tax revenue, essential services, and the very culture of our towns. Each shuttered storefront and lost job represent not just lost revenue, but the dimming opportunity, weakening of our social economy, and fading hope for a vibrant future. This is not merely a statistic; it is a human story unfolding before our eyes, a story demanding immediate attention and decisive action.

One example of the human cost of economic decline in Rockwell City, the county seat of Calhoun County, is the loss of a second-generation plumber. The 52-year-old plumbing professional suddenly passed away this past December. Now, his 73-year-old father has abandoned retirement to resume leadership of the only plumbing business in the community.

The shortage of nurses and direct care professionals at Opportunity Living, an **Intermediate Care Facility in Lake City, Iowa** is concerning, especially when it directly affects the care for individuals with intellectual disabilities. The impact on the most vulnerable members of the community underscores the broader challenges faced in the healthcare sector and the need for solutions to address workforce shortages.

Collaborative efforts involving leaders from various levels of government and the community are essential in tackling complex issues, especially those related to succession planning for current businesses to curb economic decline, workforce shortages, and healthcare challenges.

### **Policy Perspective**

These challenges, while impacting individual businesses, resonate with larger economic issues facing rural communities and the nation. Engaging policy makers and advocating for supportive legislation is crucial. We need:

- **Policy alignment:** Rural concerns resonate with national economic issues. The 2023 Congressional Budget Office report highlights the disproportionate impact of inflation on rural communities. In rural areas the CBO quote is 12.9% compared to 1% in urban areas.
- **Collaborative approach:** A 2024 bipartisan report by the National Governors Association emphasizes the need for private-public partnerships to foster rural economic development.

Addressing succession planning challenges requires understanding of the complexities faced by individual businesses and the interconnectedness of the rural economy with national issues. Through collaborative efforts and supportive policies, we can build a more resilient and sustainable future for rural communities and enhance business succession planning for generations to come.

Thank you for allowing me to share my testimony with you.