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MEMO

To: Demand Reduction Subcommittee CAMP
From: Lynn Tominaga
Date: August 3, 2009
Subject: Research on Current Lease Prices and Pro & Cons on CREP

Background. The primary objective of the proposed CREP is to conserve water in the ESPA by reducing demand on the resource. The goal of the proposed CREP project is to reduce demand by 200,000 acre-feet annually. The proposed project would encourage the retirement of irrigated land, thereby reducing demands on both surface water and groundwater supplies, providing environmental benefits, and helping to stabilize and replenish the ESPA. The program was implemented over the 15-year project term, it is estimated that the proposed CREP will require a cash contribution of approximately $183,000,000 by USDA, and approximately $74,479,020 cash and in-kind service contribution from non-federal sources, for a total estimated cost of $257,479,020.

The 2006 program has not realized its full potential because of conditions which followed:

- Commodity prices over last few years made it very hard for many to stay in CREP.(Buyers remorse).
- With the high commodity prices the last few years, land sold or rented at very high rates which are more than the norm the previous ten years.

With the current economics, some may realize now that they might have been "consistently" better off with the CREP income.

- Some producers could not stand the field of weeds that developed because the native grasses and shrubs didn't get established during very hot, dry weather the last couple of years.
- Some producers didn't account for additional costs for seeding and establishing the native grasses which incurred costs, many thought of only doing minimal work and the cost of electricity was not taken into consideration.
- Many producers didn't understand that the payments would not come until the following year and not realizing farm income for the first year was a hardship.
- Lack of threat of being curtailed by aquaculture water delivery calls had some producers playing a game of applying for CREP and when they learned that they were "safe" then pulled their ground out of the program.
- Program did not allow for all farm acreage to be put into program because of the federal $50,000 annual payment limit.
- Producers could not qualify for CREP because their ground was not Highly Erodible under the CRP rules.
- In areas where many large dairies are located, the ground is more valuable for nutrient management plans for waste control than letting it sit idle for 15 years.

Positive Comments to CREP:

- Some participants had water levels going down, pumping costs were getting high, and now the worrying stress is no longer a factor.
- Some producers were retiring and had no one to continue the farming operation.
- Many producers praised this program as a God sent and said it saved their farming operation..
- Some producers just like the idea of being part of the solution to the ESPA, and improving wildlife habitat.

Incentives or Suggestions for CREP

Most land owners look at CREP and rental income as to which will earn them the most money or make land payments over the long term. The competition CREP has is that with commodity prices rising over the last few years, many of the landowners either sold their property to other operations which took CREP based ground out of the program to return it to higher annual crop and revenue returns.

I have called over a dozen producers or farm managers from different parts of the Eastern Snake Plain Aquifer to find out current types and amount of leases being paid for rented ground. There are two basic types of leases for farm ground which are cash rentals and crop share rentals. Crop share rentals are based on a percentage of cost and income being shared by the renter and landlord. These crop share rentals are hard to generalize because they vary so much from county to county that it isn't probably a good measure of what a landowner will make from year to year. So I am eliminating these rentals from this paper.

With cash rentals, there are two types: 1) One year rentals and 2) multiply year rentals. One year cash rentals are usually for high value crops on the ESPA such as potatoes, sugar beets, seed crops (i.e beans, seed potatoes, carrot, onions, peas, some alfalfa seed, and corn seed) and other high value crops. These cash rentals vary in price from a high of $800/acre to a low of $250/acre. Multiply year rentals are usually based on five years or longer with the land owner. These types of cash rents are probably where CREP could be the most competitive with a state backed program. These cash rents are usually retired landowners or lands held in trust by a bank or trustee. They are looking at maximum return with minimal investment or management. These cash rentals are in a range of $150/acre to $200/acre based on type of irrigation system and water costs. The current CREP program is limited to about 400 acres at $134/acre while many of these land owner have more land and don't want to split the land into CREP and cash rentals.

Recommendations for Demand Reduction Committee.

1) IGWA would recommend that a state incentive of $50/acre per year for ten years be applied to future CREP contracts. Landowners currently in CREP should be offered $50/acre per year for ten years.

2) IGWA recommends that for lands that do not qualify for CREP that the state program pay $100/acre for a ten year period with no restrictions on the lease ground except for weed control.

3) IGWA would recommend that for permanent retirement of water rights an incentive of $150/acre per acre for ten years be offered with a signoff from the borrowing institution. These water rights would be held in trust with the Idaho Water Resource Board for their consideration and not held by a federal agency or entity.

4) IGWA would recommend that incentives for small particles of land such as corners of center pivots be given $100/acre per year for a ten year period which could be used either in conjunction with CREP or not.

5) The program will be limited to 150,000 acres within the ESPA and its tributaries.