

**STATE OF COLORADO
BOARD OF LAND COMMISSIONERS
AGENDA: April 4, 2013**

 X ACTION INFORMATION OLD BUSINESS TABLED FROM:

=====

TOPIC:Dry Cropland Rates

COUNTY:Statewide

PROJECT MANAGER:Matt Pollart

=====

SUMMARY STATEMENT:

State Land Board dry cropland rental rates are currently determined using a formula approved by the Board in 2004. The 2004 formula provided no mechanism for lease rates to keep pace with private lease rates or adjust for commodity prices. Staff recommends that the formula be linked to commodity prices and set State Land Board lease rates similar to comparable private dry cropland rates.

BACKGROUND INFORMATION/REMARKS:

The State Land Board manages 85,750 acres of dry cropland through 268 individual leases. These lands generate approximately \$1.5 million in annual revenue. There are 233 leases set at our “standard rate” for dry cropland. These leases average \$14.13 per acre. There are 35 leases that have higher rates as a result of competitive bidding processes. These leases have an average lease rate of \$32.20 per acre. The average rental rate for all dry cropland leases in 2011 was \$17.08 per acre.

The State Land Board’s standard dry cropland formula “converts” crop share agreements to a cash rent. Traditionally, rental agreements on privately-owned farmland are based on crop share agreements. In a crop share agreement, the landowner receives a share of the proceeds of the crop as rent, sharing risk and reward. The prevailing private practice for many years was to split the crop at 2/3 to the tenant and 1/3 to the landowner with the tenant bearing all production costs. More recently, as production costs have risen, private agreements have tended to require the landowner to contribute to 1/3 of the fertilizer and chemical costs as well. This led to some crop share agreements to split at 3/4 tenant and 1/4 landlord where tenant again bears all cost of production costs.

The State Land Board’s standard dry cropland formula converts crop share lease rates to cash rent as follows:

Price of wheat (\$ 3.92 per bushel)

x **Yield** (bushels per acre) = gross revenue per acre

x **25%** = landowner share

x **50%** = based on the assumption that the land will remain fallow every other year

= **State Land Board rent per acre**

When applied appropriately, this formula accurately captures the revenue potential of the individual parcel of cropland. The following example applies the formula to a parcel of land in Weld County.

$$\begin{aligned} & \$3.92 \text{ per bu. (price)} \\ & \times 26.45 \text{ bu. (Weld County avg. yield)} = \$103.68 \text{ per acre (gross revenue)} \\ & \times 25\% \text{ (crop share to SLB)} = \$25.92 \text{ per acre} \\ & \times 50\% \text{ (assumes the land will remain fallow every other year)} \\ & = \$12.96 \text{ per acre} \end{aligned}$$

Crop Rotation

Some producers only fallow dry cropland one out of three years instead of the more traditional practice of fallowing the land every other year. If this were the prevailing practice on state trust land, the Board could justify a 66% adjustment as opposed to the proposed 50% adjustment.

Staff consulted with CSU experts who estimated that as much 1/3 of dry cropland in the state is farmed under this system. However, the District Managers reported that a 3-year rotation is not the prevailing practice on state trust lands. Based on these findings, staff recommends that the dry cropland lease calculation continue to be based on the assumption that the land will remain fallow every other year. Staff will continue to monitor the use of a three year rotation and inform the Board if the formula should be adjusted in the future.

Wheat Prices

When the Board approved the dry cropland rates in 2004, they adopted a fixed value for the price of wheat (\$3.92 per bushel), rather than a variable price. At the time, \$3.92 per bushel was the “price guarantee” for the federal farm program. This meant that, even if the market price were lower, producers would receive \$3.92 per bushel for their crop. However, the policy did not consider the prospect that the price of wheat would exceed that figure.

As shown in the table below, the average price of wheat exceeded the \$3.92 per bushel value every year since 2004 and is at \$7.19 per bushel. This fact led staff to recommend an update to the dry cropland policy.

YEAR	Average price of Wheat (as reported by NASS)(CO)
2012	\$7.19 /bushel.
2011	\$6.60/bushel
2010	\$5.54/bushel
2009	\$4.57/bushel
2008	\$6.62/bushel
2007	\$6.01/bushel
2006	\$4.54/bushel
2005	\$3.43/bushel
2004	\$3.25/bushel

In January 2012, staff convened an industry panel to solicit input and discuss possible changes to dry cropland rates. The panel included representatives from the Colorado Wheat Growers Association, CSU Extension staff, Colorado Farm Bureau, USDA Statistics Service, an Agricultural lender, and SLB lessees. The general consensus of the group was that State Land Board rates were low.

The group recommended that the current formula be retained using a 10-year Olympic average for the price of wheat (10-year average, dropping the highest and lowest year). This serves to stabilize rents from year to year and account for volatility in the market due to drought, etc. The group also recommended using the actual farm yield when possible rather than county averages. This would allow the State Land Board to capture additional revenue from trust land that is of higher quality and has proven yields in excess of the county average.

Based on the panel's recommendation, the 10-year Olympic average price of wheat would be \$5.08 per bushel or a 35% increase in the State Land Board's dry cropland lease rates. Staff also considered the use of a 5-year standard average price of wheat because this would capture most recent wheat price trends and yet still smooth out year-to-year price volatility. The 5-year average would be \$6.10 per bushel or a 68% increase. Despite the larger increase, staff believes the 5-year average price is the most fair to both the producer and the State Land Board.

National Agriculture Statistics Service Survey

The USDA's National Agriculture Statistics Service (NASS) conducts an annual survey of private lease rates on dry cropland for the Farm Service Agency (FSA). These survey results are used to calculate rental rates that FSA pays farmers to enroll their land in the Conservation Reserve Program (CRP). The table below illustrates how the proposed State Land Board rates compare with the NASS survey on an individual county basis. The average rate found by the NASS survey, while slightly higher, is within 6 % of the average rate achieved by the proposed formula.

Proposed State Land Board Dry Cropland Rate Compared to 2012 NASS Rental Rate Survey

County	10-Year Average Yield (bushels)	Current SLB Lease Rate (per acre)	Proposed SLB Lease Rate (per acre)	Percentage Increase	2012 NASS Rental Rate Survey
Adams	28.30	\$13.69	\$22.22	62.31%	\$18.00
Arapahoe	25.80	\$12.26	\$20.26	65.25%	\$22.50
Baca	25.05	\$10.85	\$21.30	96.31%	\$25.00
Bent	25.75	\$11.37	\$20.22	77.84%	\$26.50
Cheyenne	26.85	\$11.74	\$21.08	79.56%	\$17.50
Douglas	28.45	\$14.04	\$22.34	59.12%	\$14.00
El Paso	22.90	\$11.06	\$17.98	62.57%	\$17.50
Elbert	27.05	\$13.16	\$21.24	61.4%	\$17.50
Kiowa	29.45	\$12.10	\$23.12	91.07%	\$21.00
Kit Carson	28.00	\$14.04	\$21.98	56.55%	\$34.00
Larimer	27.30	\$14.75	\$21.44	45.36%	\$24.50
Lincoln	32.45	\$14.19	\$25.48	79.56%	\$22.00
Logan	30.25	\$13.67	\$23.75	73.74%	\$20.00
Moffat	22.75	\$11.39	\$17.86	56.8%	\$20.50
Morgan	30.40	\$14.41	\$23.87	65.65%	\$22.50
Phillips	34.60	\$15.66	\$27.17	73.50%	\$37.00
Prowers	26.55	\$12.60	\$20.85	65.48%	\$28.00
Routt	25.20	\$12.30	\$19.79	60.89%	\$15.50
Sedgwick	34.95	\$15.75	\$27.44	74.22%	\$29.00
Washington	28.10	\$13.67	\$22.06	61.38%	\$23.00
Weld	26.50	\$12.96	\$20.81	60.57%	\$26.50
Yuma	32.65	\$16.00	\$25.64	60.25%	\$35.50
Average Rate (per acre)	NA	\$13.26	\$22.18	NA	\$23.52

CSU Extension Survey

The CSU Extension publishes an annual report titled “Custom Rates on Colorado Farms and Ranches”(attached). This publication includes a report on cash rental rates for dry cropland. While this survey does not have the same level of detail as the NASS report, it appears to support the proposed State Land Board dry cropland rate structure.

RECOMMENDATION:

Staff recommends the Board adopt the following changes to the existing formula for setting dry crop land lease rates on state trust land:

1. Utilize actual farm yields (rather than county averages) when available from the lessee’s crop insurance carrier.
2. Utilize the National Agricultural Statistics Service 5-year average wheat price.
3. Rates would be adjusted annually on July 1st

The resulting formula will be as follows:

Price of wheat (5 year average as reported by NASS)

x **Yield for the farm** (bushels per acre) = gross revenue per acre

x **25%** = landowner share

x **50%** = based on the assumption that the land will be fallowed every other year

= **State Land Board rent per acre**

Due to the fact that some lease rates will increase by as much as 96%, staff recommends the Board implement the initial increase over a two-year period.