USDA
United States Department of Agriculture

# ECONOMIC CONSIDERATIONS FOR POST-CRP LAND MANAGEMENT

## OVERVIEW

Economics will play a large part in many decisions you make about how to manage your land post-CRP. Before your CRP contract expires, develop goals and identify how you will generate income from the acres formally enrolled in CRP. Also consider the farm's financial condition, crop prices and yields, input costs and labor, and any potential government assistance or incentive programs.

## CROPLAND CONSIDERATIONS

If you decide to convert your CRP lands back to croplands, your primary economic consideration will be deciding which management system to use. Ask yourself: Will the land be chemical fallowed and direct seeded? Will you use conservation tillage such as reduced-till or no-till? Or will the land be plowed? Each option has associated costs, not only with the primary management operation, but also with the follow-up maintenance required to develop an adequate seedbed for the next cash crop.

You should also consider the time it will take to transition with each management system before a cash crop can be harvested. Keep in mind that the first crop rotation after CRP may be weedy; and your production costs will be higher than in continuously-used fields.

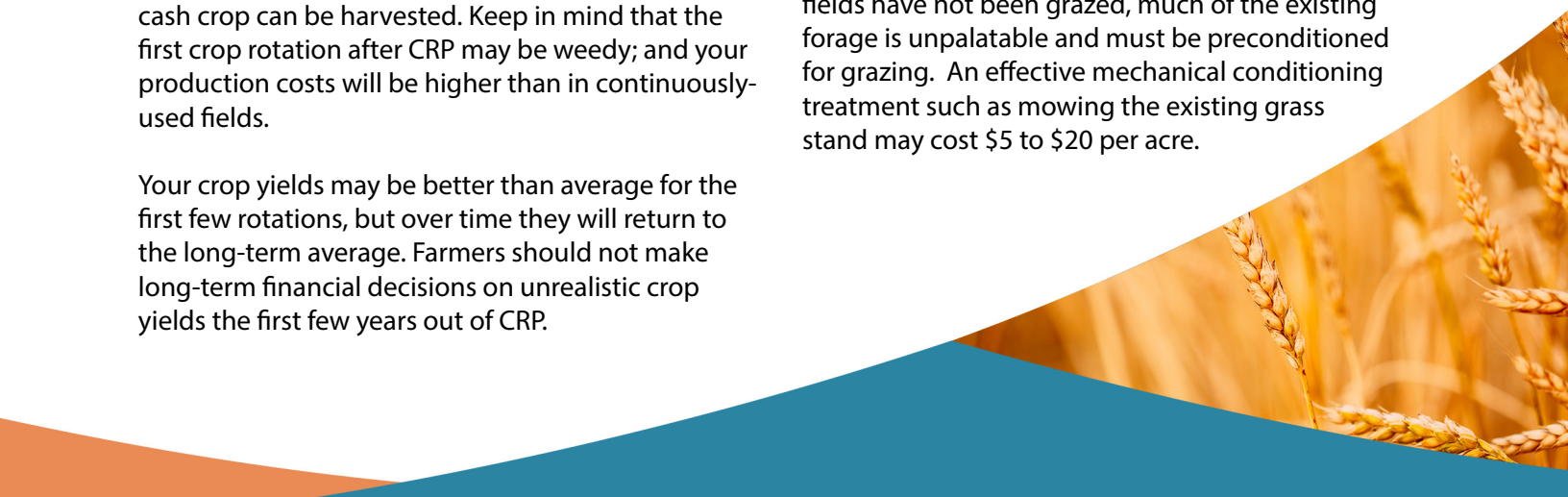
Your crop yields may be better than average for the first few rotations, but over time they will return to the long-term average. Farmers should not make long-term financial decisions on unrealistic crop yields the first few years out of CRP.

Also keep in mind that there have been many changes in crop production inputs since many CRP acres were initially enrolled. Chemical and machinery costs have increased; new products have entered the market. The farm labor force has changed, as family members and farm laborers found other employment. Farmers unfamiliar with these changes may be prohibited from farming at the same profit margins they once did.

Wheat/fallow operators who did not split their CRP contract over two years can only farm half of the CRP land the first year and may encounter cash flow problems with up to 18 months between the last CRP payment and the first crop.

## RANGELAND CONSIDERATIONS

Before most CRP fields can be grazed, consider installing adequate fences such as a permanent wire fence or a temporary electric fence. Each of these fences have pros and cons to their management and use, and each has varying price points for installation and maintenance. Also consider installing livestock watering facilities. Stock water developments may cost upwards of $3,000 for installation. Because CRP fields have not been grazed, much of the existing forage is unpalatable and must be preconditioned for grazing.  An effective mechanical conditioning treatment such as mowing the existing grass stand may cost $5 to $20 per acre.



## OTHER CONSIDERATIONS

The Oregon legislature passed laws to protect water rights during the life of a CRP contract. However, those water rights may be lost if the land is not irrigated two out of five years once the CRP contract expires.

Banks may be more conservative with farm loans than they were ten years ago when most CRP contracts were signed. Land values have declined in many areas, interest rates are lower, and farm machinery is older and often in disrepair.

Local rural governments are very concerned with what happens to CRP acres. If cropland is converted to a use that generates less income, such as grazing, or left idle, the local tax base will suffer.

## KEY STEPS IN ECONOMIC DECISION MAKING

### 1. Identify your situation.

Gather information so the evaluation is tailored to your specific situation. This step is also important for capturing some of the factors outside of economics that might have a significant impact on your decision.

- ❑ How many acres of CRP do you have?
- ❑ Describe your operation before acreage was enrolled in CRP.
- ❑ Describe your operation now.
- ❑ What options are you considering to use when CRP contracts expire?
- ❑ If you bring all of your CRP land back in to crop production will you need to acquire more machinery or hire more help?
- ❑ Do you have livestock or are you willing to consider using livestock in your operation?
- ❑ If you use your CRP land for grazing, will you try to acquire more livestock?

### 2. Collect the data necessary to fill out the economic work sheet.

You may use generic data such as published Extension Service budgets; however, the analysis will be more reliable if the data is customized to fit your operation. Production costs production should exclude any land or management costs. The operations involved in breakout of CRP are likely to vary for different regions. It may be necessary to consult an agronomist for a set of operations that would be used in a specific area. Only costs that are not a part of the normal expected crop rotation should be included in the break out costs.

- ❑ Crop Budgets
- ❑ Livestock Budgets
- ❑ Fencing costs
- ❑ Cost of water development
- ❑ Land prices for both cropland and rangeland
- ❑ Rental or lease rates for cropland, and rangeland
- ❑ Cost and return estimates for alternatives other than cropping or grazing (ex: fee hunting, recreation)
- ❑ Cost of acquiring machinery, equipment, or livestock
- ❑ Value of machinery
- ❑ Value of home, farmstead and out buildings

### 3. Fill out the economic work sheet (See attachment).

This worksheet is designed to summarize the net returns for each alternative. Fill in each of the blanks with the relevant data, entering all receipts as positive numbers and all costs as negative numbers. One-time costs or revenues are all converted to annual values amortizing over 20 years with an interest rate of 8 percent. After the annual net returns for each alternative are calculated, they are converted to per acre net returns at the end of the work sheet. At this point, each alternative should be ranked with the highest net return ranked No. 1, the second highest net return ranked No. 2, etc.

### 4. Compare the annual returns for each alternative.

Subject to any constraints. For example, if the highest annual net returns are for grazing CRP, but you do not like livestock for other reasons, then you will likely choose the alternative with the next highest annual net returns.

### Interpretation

Each alternative in the summary section has been given a ranking. Neglecting any other constraints, the alternative with the highest net return (ranked No. 1) is economically the most favorable. Your ultimate decision may be affected by things such as base acreage constraints, time constraints, or risk attitude. Also, there may be other considerations that are equally important to you.

# Economics Worksheet for Comparing Alternative Uses of CRP Land

Sell it: _____ acres x _____ $/acre = $ _____

Home, Farmstead, Out Buildings = $ _____

Farm Machinery = $ _____

Sum of One-time costs = $ _____ x 0.10185* = _____ $/year

TOTAL 1 = _____ $/year

Farm It: "Break out" CRP:

_____ acres x _____ $/acre = $ _____

Other One-time costs (e.g. equip. purchase) = $ _____

Sum of One-time costs = $ _____ x 0.10185 = _____ $/year

Crop 1 net returns _____ $/acre x _____ acres = _____ $/year

Crop 2 net returns _____ $/acre x _____ acres = _____ $/year

Crop 3 net returns _____ $/acre x _____ acres = _____ $/year

Crop 4 net returns _____ $/acre x _____ acres = _____ $/year

TOTAL 2 = _____ $/year

Rent to farmer: "Break out" CRP:

_____ acres x _____ $/acre = $ _____

Other One-time costs = $ _____

Sum of One-time costs = $ _____ x 0.10185 = _____ $/year

Cropland rent _____ $/acre x _____ acres = _____ $/year

TOTAL 3 = _____ $/year

Hay It: "Break out" CRP and/or replant:

_____ acres x _____ $/acre = $ _____

Other One-time costs = $ _____

Sum of One-time costs = $ _____ x 0.10185 = _____ $/year

Hay crop net returns _____ $/acre x _____ acres = _____ $/year

TOTAL 4 = _____ $/year

Rent for Hay: "Break out" CRP and/or replant:

_____ acres x _____ $/acre = $ _____

Other One-time costs = $ _____

Sum of One-time costs = $ _____ x 0.10185 = _____ $/year

Hay crop rent: _____ $/acre x _____ acres = _____ $/year

TOTAL 5 = _____ $/year

# Economics Worksheet for Comparing Alternative Uses of CRP Land

Graze It: Preconditioning and/or replanting:

_____ acres x _____ $/acre = $ _____

Border fence:

_____ miles x _____ $/mile = $ _____

Cross-fencing:

_____ miles x _____ $/mile = $ _____

_____ site x _____ $/site = $ _____

Purchase additional livestock:

_____ head x _____ $/head = $ _____

_____ head x _____ $/head = $ _____

_____ head x _____ $/head = $ _____

Other One-time costs = S

Sum of One-time costs = $ _____ x 0.10185 = _____ $/year

Livestock net returns:

_____ acres x _____ AUM/acrex _____ $/AUM = _____ $/year

TOTAL 6 = _____ $/year

Rent to Rancher: Preconditioning and/or replanting:

_____ acres x _____ $/acre = $ _____

Border fence:

_____ miles x _____ $/mile = $ _____

Cross-fencing:

_____ miles x _____ $/mile = $ _____

Water development:

_____ site(s) x _____ $/site = $ _____

Other One-time costs = S

Sum of One-time costs = $ _____ x 0.10185 = _____ $/year

Grazing Rent:

_____ acres x _____ AUM/acrex _____ $/AUM = _____ $/year

TOTAL 7 = _____ $/year

Wildlife habitat: One-time costs = $ _____

One-time income (e.g. cost-share) = $ _____

Sum of One-time costs = $ _____ x 0.10185 = _____ $/year

Net Return to Wildlife (incl. hunting revenue & other annual payments or costs) = _____ $/year

TOTAL 8 = _____ $/year

Other: One-time costs = $ _____

One-time income (e.g. cost-share) = $ _____

Sum of One-time costs = $ _____ x 0.10185 = _____ $/year

Annual Net Returns (incl. any other annual payments or costs) = _____ $/year

TOTAL 9 = _____ $/year

# Economics Worksheet for Comparing Alternative Uses of CRP Land

| Summary | | | | | Rank |
|---|---|---|---|---|---|
| Net Returns to Selling It | TOTAL 1 = _____ / _____ acres | = $_____ | $/Ac./Yr. | _____ | |
| Net Returns to Farming It | TOTAL 2 = _____ / _____ acres | = $_____ | $/Ac./Yr. | _____ | |
| Net Returns to Renting to Farmer | TOTAL 3 = _____ / _____ acres | = $_____ | $/Ac./Yr. | _____ | |
| Net Returns to Haying It | TOTAL 4 = _____ / _____ acres | = $_____ | $/Ac./Yr. | _____ | |
| Net Returns to Renting for Hay | TOTAL 5 = _____ / _____ acres | = $_____ | $/Ac./Yr. | _____ | |
| Net Returns to Grazing It | TOTAL 6 = _____ / _____ acres | = $_____ | $/Ac./Yr. | _____ | |
| Net Returns to Renting to Rancher | TOTAL 7 = _____ / _____ acres | = $_____ | $/Ac./Yr. | _____ | |
| Net Returns to Wildlife Habitat | TOTAL 8 = _____ / _____ acres | = $_____ | $/Ac./Yr. | _____ | |
| Net Returns to Other | TOTAL 9 = _____ / _____ acres | = $_____ | $/Ac./Yr. | _____ | |

•Amortization factor for a 20 year planning horizon at 8% interest

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