

Decision Considerations for Expiring CRP Contracts

The Conservation Reserve Program (CRP) is a valuable tool for moderating the effects of soil erosion and providing reliable income.¹ It also provides wildlife habitat and water quality benefits.^{2,3} As of April 2006, there were 3 million acres enrolled in the CRP in Kansas through government contracts with private landowners.⁴ More than half of Kansas CRP acres (2.4 million acres) came up for renewal or release in 2006.⁵ Many of these acres have already been re-enrolled in new contracts or short-term, 2- to 5-year, extensions, which were offered on expiring CRP land. The ability to re-enroll these acres in long-term CRP contracts depends on the inclusion of renewed CRP funding in the upcoming farm bill.

This publication is intended to help landowners and operators plan for the future of their CRP land.

Local economic conditions can be either favorably or unfavorably affected by CRP enrollment.⁶ Stable income for participants may change how money is spent in their communities. It is possible that with reduced crop acreage, more money could be spent on personal living and less on farm inputs.⁶ Local water supplies and air quality have been positively affected by CRP enrollment, but these benefits are difficult to quantify.⁶ Returning land to crop production may negatively influence crop prices as surpluses accrue. Using CRP vegetation for grazing or haying may negatively influence livestock prices as livestock numbers climb.

There are seven broad options open to those with expiring CRP contracts: 1) re-enrollment in the CRP or enrollment in other conservation programs; 2) returning CRP land to crop production; 3) retaining CRP vegetation for livestock or forage production; 4) leasing or selling CRP land; 5) using the land for non-agricultural purposes such as leased hunting; 6) selling easements on the CRP land while retaining ownership; and 7) selling carbon credits. The best strategy depends on a producer's circumstances, expectations, and goals.⁶

CRP land from one tract can be split between options or used for multiple options. CRP-established vegetation along a stream could be retained as a buffer when converting to cropland. Retaining contour grass strips instead of constructing terraces could decrease the costs of converting land to crop production while

meeting government program compliance. Leased hunting could be complementary with forage production and carbon credit sales.

1. Re-enroll in the CRP or other government programs. Short-term re-enrollment may be available. The duration of the re-enrollment period is determined by the environmental score on the CRP evaluation done at the first enrollment.

- *Guaranteed annual cash rental payment.* Re-enrolling acreage in the CRP provides a guaranteed annual rental payment that can equal or exceed the land's cash rental value at time of enrollment.⁶ These payments can decrease the overall risk of the farm operation.⁶ However, CRP rates are locked in for multiple years and do not respond to inflation increases. Changes in CRP program rules may require more inputs or management to qualify for re-enrollment.
- *Decreased labor requirements.* CRP participation allows controlled ownership with less management than returning the land to crop farming, freeing labor for a second job¹² or retirement, while retaining the ability to capture possible increases in land values.
- *Improved condition of adjacent land.* Land in the CRP may mitigate the need for conservation structures on adjacent land and improve overall environmental conditions.
- *Increased land values.* Land value may be positively affected by re-enrolling land in the CRP.¹³
- *Enrollment in other government programs.* Enrollment in other government programs such as Environmental Quality Incentives Program (EQIP), Wetlands Reserve Program (WRP), or continuous CRP may be possible.

2. Return the land to crop production.

- *Increased income potential.* Crop production may be more profitable than CRP payments.
- *Increased input purchases.* Labor, equipment, management, and input costs would be increased. Local purchase of supplies might support agricultural businesses in the community.

- *Ability to change operators.* Returning land to crop production offers the opportunity to change farm operators, which can be difficult while under a CRP contract.
 - *Conversion costs.* Existing CRP vegetation will need to be destroyed by tillage or chemical methods. Depending on the producer or the operation, no-till or reduced till cropping systems could be the most cost-effective method of returning the land to crop production by using chemicals in place of deep tillage for destroying CRP vegetation and immediately planting a crop. Underlying weed problems (residual seed in the soil) can become important when the land returns to production. Higher than normal nitrogen rates may be required for 2 years after conversion.¹⁴
 - *Ability to participate in government programs.* Expired CRP acres returned to crop farming may be eligible for participation in government programs. Government programs provide some income protection and risk reduction, as well as cost-share opportunities and technical assistance. Changes in the farm program may change the economics of participation. CRP acres protected with CRP¹⁵ agreements have protected base acres. However, base acres plus CRP acres combined cannot exceed cropland acres on a farm. Acres that exceed this amount are permanently subtracted from the base acres. If CRP land is returned to crop production, a reduced base acreage may decrease government program benefits. For CRP contracts expiring or terminated before October 1, 2007, base acres can be restored. Contracts expiring or terminated after that date will be subject to the regulations of the new farm bill.
 - *Compliance costs for highly erodible land.* Conservation practices may be required to comply with government program requirements when returning highly erodible land (HEL) to crop production. Compliance costs are up-front and may increase the owner's debt load. Cost-share funds may be available from the state or EQIP. Leaving contour grass strips when converting CRP land to cropland may meet some of the HEL compliance requirements. Some conservation practices, such as grassed waterways and buffer strips, decrease the amount of land available for cropping. Conservation structures require maintenance, which increases cost and management. Without compliance, up-front costs are lower, the conversion to cropland is rapid, and early income is maximized. There is neither income protection from declining commodity prices nor any ability to benefit from cost-sharing or other program incentives.
- *Environmental costs.* The decreased soil protection associated with removing perennial vegetation may lead to increased sediment, herbicide, and fertilizer runoff, and may affect adjacent land, which may subsequently need conservation treatment. Soil compaction would also increase. Soil and water resources can be protected when returning CRP land to crop production by leaving a buffer of CRP vegetation around surface water such as streams and in areas prone to erosion, or by cropping only the most productive acres and managing the remaining CRP vegetation as hay and forage. Buffers may be eligible for continuous CRP (CCRP) enrollment, even if the rest of the field is ineligible for re-enrollment. Implementing conservation practices can delay income from crop production but also protect future yields by conserving topsoil from wind and water erosion.
- ### 3. *Retain existing CRP vegetation for hay and forage.*
- *Low conversion costs.* Using the expired CRP vegetation for hay or forage may require less up-front investment than returning the land to cultivation. Maintenance and management costs may be lower than for crop farming, although some grazing options are management intensive. Leaving expired CRP land in grass and/or trees gives continued protection to the land from water and wind erosion, enhancing water quality. Hay and pasture income is generally less than crop income. Under current rules, expired CRP is treated as pastured cropland, making it eligible for higher Conservation Security Program (CSP) payments than native rangeland. CSP base payments will be lower than CRP payments, but additional income can be realized from haying and grazing.
 - *Management flexibility.* Expired CRP vegetation provides management flexibility since

it can be used as either hay or forage. Hay can be fed or sold depending on the relative economics each year. Hay can provide immediate, first growing season income with little or no expenditure on permanent improvements. Haying costs may include harvesting equipment, custom harvesting fees, and forage marketing. Labor demands may be greater than with grazing. Haying may be detrimental to wildlife at certain times of the year⁷ but beneficial at other times.⁸ Good grazing management, including prescribed burning, will be required to maintain productivity and species composition.

- *Leasing opportunities.* The inability of operators or landowners to handle the debt associated with stocking former CRP land can be avoided by leasing the land to another livestock owner. There may be an opportunity for the landowner to provide management of the operator's livestock as an additional source of income.
- *Special use opportunities.* Former CRP land allocated to grazing can be used to provide winter-feeding sites, birthing pastures, and to serve as a forage reserve for drought periods. It can be incorporated into grazing systems that improve herd performance, maximize grass health, and provide wildlife cover. Fencing and water development costs can be substantial, but cost sharing is available.⁵ Grazinglands located adjacent to croplands can provide opportunities for complementary grazing, which can extend the grazing season and improve profitability.¹¹ This may be the best use of small CRP acreages where separate fencing is not economically viable.

4. Lease or sell CRP land.

- *Realize the increased value of the land.* For some landowners, selling former CRP land allows them to capture capital gains generated by land value increases while the land was enrolled in CRP. This can free labor and management for other activities and provide money for other investments. Retaining ownership, but leasing the land, can capture potential future capital gains while freeing labor and management for other enterprises. Landowner costs are associated with converting CRP land to cropland or grazing. Rental rates can be adjusted down-

ward to reflect operator contributions toward conversions or improvements. Multiple-year leases increase the economic incentive for operators to improve and conserve the land. Leases need to specify who controls hunting rights.

5. Use the land for non-agricultural purposes.

- *Utilize intrinsic values.* Expired CRP land can have recreational, environmental, and aesthetic values.^{2,9,13} Neighboring land uses can enhance or decrease these values. To capture these values, a marketing plan will have to be developed and implemented. CRP land can provide good hunting opportunities in some locations, especially if it provides habitat for a desirable species.³ Hunting leases can provide a source of income for the landowner or operator. Management needs vary with the site and with the intensity of wildlife production desired. Wildlife plantings may improve hunting success and thus increase lease rates, as well as costs and management. In some instances, grazing is a compatible, and even desirable, component of wildlife management.⁸

6. Leave the land in grass and protect it with an easement.

- *Retain agricultural use of land.* Urban sprawl can place pressure on expired CRP land for development. Where available, conservation easements⁵ can provide an economically viable alternative to development.¹⁰

7. Contract carbon credits.

- *Garner additional income from carbon credits.* About 50 percent of the carbon sequestered in the soil is lost by tillage. It can be re-sequestered by reducing tillage operations or planting grass. A market for carbon sequestration credits is emerging. In a pilot program, the Chicago Climate Exchange (CCX) is contracting with Farm Bureau and Farmers Union, which are functioning as a carbon credit aggregators.¹⁵ Producers in parts of Kansas can contract carbon credits on no-till crop acres or land seeded to grass that meet specific criteria. Currently, land established in grass before 1999 cannot be contracted, but this may change in the future. Current rates are \$1 to \$2 per acre; land must be maintained according to contract terms for 4 years.

Summary

Economics will undoubtedly dictate how CRP acres are managed. Landowners have several options, including keeping land under CRP contract, converting land to crop production, or using the land for forage and/or livestock production. These alternatives can be compared using the CRP decision tool and spreadsheet available at: <http://www.agmanager.info/livestock/budgets/production/default.asp>

Click on *CRP Decision Tool: For managers with expiring CRP contracts*. In addition to economics, landowners may also consider the environmental benefits of retaining CRP land in permanent vegetative cover.

Endnotes

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