CC162 The Soil Bank Bid Plan: How it Operates in Nebraska

Everett E. Peterson

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THE SOIL BANK BID PLAN
How It Operates in Nebraska
by
University of Nebraska
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JUN 17 1988
INTRODUCTION

The U.S. Department of Agriculture recently announced a change in the Conservation Reserve Part of the Soil Bank Program effective in 1988. The purpose of this change is to try to develop a more effective method of reducing total farm production by providing farmers with a greater incentive to "bank," or place in reserve, all the cropland on their farms. Basically the plan is an auction-in-reverse; farmers will make bids or offers to ASC of the price per acre they will accept for putting all cropland in the Conservation Reserve. Under the regular Conservation Reserve Program, the payment rate per acre is set and farmers can take it or leave it.

The plan is being tried at first on an experimental basis in only four States - Nebraska in the Great Plains Region; Illinois in the Corn Belt; Maine in the New England Area; and Tennessee in the South. On the basis of the experience in these four States, such a plan may be offered to the other forty-four States, and recommendations may be submitted to Congress on needed changes in farm legislation.

HOW THE PLAN WORKS IN NEBRASKA

1. Can entire farms or ranches be placed in the Conservation Reserve under this plan?

No. The bid plan, like the regular Conservation Reserve Program, applies only to cropland, including rotation hay or pasture. Permanent range or pasture land and native or wild hay meadows are not eligible under this or any other phase of the Soil Bank Program.

2. What payments will be made to farmers for placing land under contract?

Farmers whose bids are accepted and who fulfill the provisions of their conservation reserve contracts, can receive two kinds of payments: (1) An annual payment at the bid rate per acre to provide income from cropland taken out of production; and (2) Cost-sharing payments for establishing approved conservation practices on the banked acres.

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W. V. LAMBERT, DIRECTOR
The largest total payments which can be made to any one farmer in a single year under this plan is $10,000.

3. How long will the conservation reserve contracts run under this bid plan?

Contracts can be for 5 or 10 years at the option of the bidder.

4. How does a farmer submit a bid if he is interested in this plan?

First, he should obtain as much information as possible about the plan from his county ASC and Extension offices and consider carefully how it might apply to his situation. Next, he goes to his county ASC office and prepares and signs a conservation reserve contract and gets a bid or offer form.

He then figures out a price per acre that he is willing to accept for keeping his cropland out of production for a 5 or 10 year period. This price, in dollars per acre, is entered on the bid form by the farmer like marking a secret ballot. Finally he places the contract and his bid in an envelope, seals it, and returns it to the county ASC office not later than January 31, 1958.

5. What is the deadline for submitting offers under this bid program?

The closing date is January 31, 1958.

6. When will farmers be notified whether their bids have been accepted?

As soon as possible after the closing date, the county ASC offices will notify farmers as to acceptance or rejection of their bids. This will probably take about three weeks after the closing date.

If a bid is accepted, the contract is effective at once. If a bid is rejected, the farmer will have time to sign-up for the Corn Acreage Reserve (before March 7) or the regular Conservation Reserve Program (before April 15), or to keep the cropland in production.

7. On what basis will bids be accepted or rejected?

All the sealed bids or offers will be sent in to the State ASC Office where the State Committee, in cooperation with other State and Federal agencies, will set "ceiling prices" for bids from the various areas of the State. All bids at these prices or below will be accepted; all those exceeding these rates will be rejected.

Factors to be considered in setting maximum rates for an area will include: the range in per-acre offering prices, the number of offers from an area in relation to the total number of farms, the estimated productivity and sale value ratings as supplied by county ASC committees, and the amount of funds available for the program.
8. If a bid is accepted, does a farmer have a chance to reconsider before the contract becomes final and binding?

No, he cannot withdraw his offer or contract. When he submits an offer, he should do so with the full realization that the offer may be accepted and, if accepted, the contract is effective immediately.

9. If a bid is rejected, can a farmer submit a new, lower bid?

No. This is not possible in 1958. He can participate in the regular Soil Bank Program or keep his cropland in production.

10. How can a farmer arrive at a fair and reasonable bid figure?

The bid or offer rate per acre will vary among farms even in the same community because of differences in productivity, tenure, size, improvements, relation of cropland to pasture land, and family situations. Family situations differ as to the age and physical ability of the operator, investment in livestock and machinery, and alternative employment opportunities.

In general, the offers should be based upon the costs that will go on even though the cropland is taken out of production and upon a realistic return for investment in land and in machinery and buildings, if idled by participation in this program. This plan is not intended to provide full compensation for the farmer's labor and management, in other words, to permit farm operators to receive the same net income as when they were using their labor and managerial ability in crop production. Allowances should be made for possible increases in property taxes and for further declines in the purchasing power of the dollar.

The simplest situation is that of the farmer who is near or past retirement age and wishes to cut down on the amount of farm work while still receiving some income from his farm. Such a farmer would add the taxes on his farm; his share of the cost of establishing and maintaining conservation practices and of weed control, fence repair (also building maintenance if not used for livestock), and interest on investment. He should prorate the taxes, fence repair and investment between cropland and pasture if he plans to rent out his pasture and buildings or keep a livestock enterprise to use his buildings and wild hay and pasture. This sum (taxes plus other costs plus interest on investment) would be divided by the acres of cropland to get the bid price in dollars per acre. Interest on investment can be figured by taking about 6 percent of the market value.

The same method of figuring would apply to the farm landlord or to the farm owner-operator who has a chance to work at an off-farm job.

The problem is more complicated on a rented farm because the tenant as well as the farm owner is involved. The return to the landlord would be figured as described above. In addition, there should be added the tenant's costs that will go on, such as, depreciation and personal property taxes on machinery, and net cost of feed (total less crop production costs saved) if livestock are involved. The tenant and landlord must agree in advance on the division of the payment and both must sign the contract.
11. Can a contract be canceled before the end of the contract period?

No, except under special circumstances such as the physical or mental incapacity of the farmer to such an extent that he cannot carry out the terms of the contract.

12. What happens if there is a change in the ownership or tenant on a farm during the contract period?

Such a change in control of the farm ends the contract with the original owner or tenant. He receives no further payments and will have to refund all cost-sharing payments received unless his successor becomes a party to the contract. The successor may, at his request, be substituted under the contract.

13. Can a farm landlord terminate a lease in order to put his cropland in the Soil Bank and receive the entire payment?

The Soil Bank Act specifically provides that tenants shall be given the opportunity to participate under the contract and that a tenant cannot be removed from a farm for the purpose of sole participation in the program by the landlord. However, if a tenant voluntarily gives up his lease on a farm, the landlord is not required to offer the farm for rent to another tenant but can place his cropland in the Soil Bank and receive the entire payment.

14. What are the requirements as to the treatment of land placed in reserve under this plan?

The requirements and restrictions are essentially the same as under the regular Conservation Reserve Program. The reserve acres must be seeded to permanent grass cover or planted to trees; such land can also be used for water storage facilities and for food, cover and water for fish and wildlife. The reserved land cannot be grazed and no hay, grain or seed crops can be harvested from it during the contract period.

Noxious weeds must be controlled on the reserve acres. The farmer also agrees not to break out any new land for crop production.

15. Are penalties provided if a contract is violated?

If the provisions of the conservation reserve contract are violated substantially, the contract may be ended, all rights to payments forfeited, and all payments made refunded to the Federal Government. For less serious violations the rights to payments will be adjusted, forfeited, and refunded as determined to be appropriate.

In addition, the Soil Bank Act provides that any producer who "knowingly and willfully" grazes or harvests any crop from an acreage in violation of a contract is subject to a fine or civil penalty of 50 percent of payments for the year in addition to the forfeit and refund of payments.
16. Do payments under this plan count for social security purposes?

Income from conservation reserve payments will count for social security purposes in the same manner and subject to the same limitations as that from regular farm sources, such as crop sales. Farmers and farm landlords who need such income to become eligible for social security payments should make sure that they do not change their tenure arrangements and participation in production so that their income becomes strictly rental or investment income. Those who have retired will want to consider making such changes to permit them to receive their soil bank payments and all their social security benefits.

17. Can a farmer participate in the Bid Plan and in the Great Plains Conservation Program or Agricultural Conservation Program?

He could participate in the Soil Bank Bid Plan and either or both of the others. For example, he could place all his cropland in the Conservation Reserve for the purpose of receiving income payments while regressing. He could obtain technical assistance in developing and carrying out long-run changes in his land use and cropping system under the Great Plains Conservation Program. He could receive cost-sharing payments for approved conservation practices under either the Soil Bank, Great Plains, or Agricultural Conservation Programs. Cost-sharing payments can be obtained from only one of these sources for any one practice.

18. Will putting land in the Conservation Reserve reduce farm acreage allotments in the future?

No. Cropland placed in the Soil Bank will be regarded as having been in crop production in setting future allotments or corn bases.

19. How does this bid plan work if a farmer already has some land in the Soil Bank and his bid is accepted?

He may still submit an offer for all his cropland. If he has some land in the Conservation Reserve, the new contract will include all the cropland. The annual payment rate for land already under contract will remain at the regular fixed rate provided in the original contract.

If he has some land in the 1958 Wheat Acreage Reserve, he earns the acreage reserve payment on this land in 1958 and the bid rate on the remainder. If he has a corn acreage allotment on his farm, he may also participate in the 1958 Corn Acreage Reserve Program at the acreage reserve rate for corn. In 1959 and subsequent years, all payments will be made at the bid rate for all cropland.

SOME ADDITIONAL CONSIDERATIONS

Should I participate in this new Soil Bank Bid Plan? Since no two farms or farm family situations are alike, each farm operator or owner will have to work out his own final answer. Participation is voluntary but the contracts are
legal and binding once they are effective. The late announcement of the plan
and the necessarily early cut-off date limit the amount of time available for
studying, figuring and deciding whether to make an offer, and if so, what price
to bid.

In reaching a decision, the following advantages and disadvantages might
be considered carefully:

**Advantages**

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<tr>
<th>Number</th>
<th>Advantage</th>
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<tbody>
<tr>
<td>1.</td>
<td>Income is certain; risk from drought, price change, and other hazards reduced.</td>
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<td>2.</td>
<td>Soil improvement, better land use and possibly higher future income.</td>
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<td>3.</td>
<td>Lower operating costs - less fertilizer, labor, seed, machinery, and power expense.</td>
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<td>4.</td>
<td>Improved market prices for crops if production control is effective.</td>
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<td>5.</td>
<td>Possibility of less restrictions on production on remaining farms.</td>
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<td>6.</td>
<td>Less farm work with income to supplement retirement pay or off-farm earnings.</td>
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**Disadvantages**

<table>
<thead>
<tr>
<th>Number</th>
<th>Disadvantage</th>
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<tbody>
<tr>
<td>1.</td>
<td>Cropland use restricted for 5 or 10 years; permanent pasture and wild hay not included.</td>
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<td>2.</td>
<td>Fixed costs continue; property taxes are likely to increase in Nebraska.</td>
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<tr>
<td>3.</td>
<td>Less efficient use of operators' and family labor, machinery, buildings, and permanent pasture and wild hay land in some situations.</td>
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<tr>
<td>4.</td>
<td>Loss of farm-grown feed for livestock enterprises, making it necessary to buy feed or sell the livestock in some cases.</td>
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<td>5.</td>
<td>Landlord-tenant problems on rented farms; whether to participate; how to figure the bid; how to divide payments.</td>
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<tr>
<td>6.</td>
<td>Payments may not offset loss in income unless retirement payments or earnings from off-farm jobs are available.</td>
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**FOR MORE INFORMATION**

Ask your COUNTY AGRICULTURAL AGENT for help in working out how this plan
might apply to your situation and in figuring a realistic bid price.

See your COUNTY ASC COMMITTEE for detailed information on the program
for preparing conservation reserve contracts and for the "bid" form.