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CORNHUSKER ECONOMICS

A Republican River Water Bailout?

Nebraska is in violation of the Republican River Compact Settlement for 2006 by an estimated 41,430 acre-feet (AF) of water. Kansas has claimed damages of \$72 million for Nebraska's settlement violations, has demanded irrigation cutbacks of nearly 50 percent and has initiated formal arbitration proceedings under the settlement for resolving compliance disagreements. The [July 9, 2008 Cornhusker Economics](#) newsletter suggested that Kansas was entitled to only half the water and money it claimed. Kansas has proposed that Nebraska ultimately needs to shut down all wells within 2.5 miles of the Republican River and tributaries with all irrigation wells installed after 1990, or 515,000 irrigated acres. To consider possible outcomes to the current Republican River impasse, we will assume that to assure long-term compact compliance, Nebraska needs to reduce irrigation by 500,000 acres, or to reduce ground water pumping to achieve the same water usage effect.

In the [2008 Land Values Report](#), Dr. Bruce Johnson (Professor, Dept. of Agricultural Economics, University of Nebraska–Lincoln) estimates that the difference between irrigated and non-irrigated land in the Republican River Basin is around \$1300/acre. (There is lots of variation but we are interested only in a rough approximation.) So, assuming the State of Nebraska decides to reduce irrigation by purchasing and retiring Republican Basin ground water rights, the cost would be 500,000 acres times \$1300/acre = \$650 million (again, this is a ballpark estimate). If the purchase were spread out over 10-20 years, the annual costs would be much lower than having to do it in a single year. Possibly water retirement costs could be lowered if e.g. Nebraska paid irrigators not to irrigate until crop prices (and irrigated land prices) declined, and permanently retired the water rights when prices declined.

But this is not the only way to reach this objective. If 500,000 acres is around 50 percent of the ground water irrigated land in the Republican Basin, the state could

Market Report	Yr Ago	4 Wks Ago	8/8/08
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$89.83	\$98.51	\$99.66
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.....	132.81	130.65	130.01
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.....	115.87	117.85	117.91
Choice Boxed Beef, 600-750 lb. Carcass.....	144.53	173.34	160.94
Western Corn Belt Base Hog Price Carcass, Negotiated.....	70.44	73.31	87.42
Feeder Pigs, National Direct 50 lbs, FOB.....	56.00	28.38	49.00
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	70.85	80.36	90.56
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.....	103.75	113.00	103.37
National Carcass Lamb Cutout, FOB.....	258.47	278.99	278.01
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu.....	5.74	7.66	7.11
Corn, No. 2, Yellow Omaha, bu.....	3.20	6.34	4.72
Soybeans, No. 1, Yellow Omaha, bu.....	7.74	15.70	11.72
Grain Sorghum, No. 2, Yellow Dorchester, cwt.....	5.23	10.68	7.14
Oats, No. 2, Heavy Minneapolis, MN, bu.....	2.64	4.03	*
<u>Feed</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.....	135.00	190.00	190.00
Alfalfa, Large Rounds, Good Platte Valley, ton.....	85.00	77.50	77.50
Grass Hay, Large Rounds, Premium Nebraska, ton.....	*	85.00	85.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.....	*	183.00	162.50
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.....	42.00	68.00	64.00
*No Market			

require irrigation ground water withdrawals to be reduced 50 percent. This would have a similar hydrologic impact to cutting back irrigated acres by 50 percent. And this could be accomplished without having to pay irrigators anything.

Now, assuming that if state elected officials don't want to force a 50 percent irrigation cutback in the Republican (either by cutting back ground water used or by cutting back acres irrigated) without compensation, what can they do? Well, one possibility is that Nebraska could stonewall Kansas, force arbitration with the expectation that the arbitrator would require Nebraska do the 50 percent irrigation cutback that Kansas has demanded. The arbitrator could also establish a federal official (a federal "water master") to oversee Nebraska's compliance efforts, and to force irrigation cutbacks if Nebraska water officials did not comply. At this point, Nebraska could go to Congress and request a Congressional bailout – "the federal water master has ordered these draconian water cutbacks, so you feds should have to pay for them." Indeed, the federal government paid Klamath Valley irrigators when federal officials ordered irrigation cutbacks to meet endangered species requirements. So there is some historical precedence for requesting a federal financial bailout for these types of circumstances.

If the federal government declines to fund the bailout, what would happen then? The state of Nebraska (i.e. the Governor and Unicameral) would have to decide whether the state should pay all, part, or none of the costs of the irrigation cutback, and how much of any payment should be state versus local (i.e. borne by Republican Basin NRDs). One interpretation of 2007's LB701 is that Natural Resources Districts (NRDs) agreed to reduce ground water use over time by buying ground water rights from irrigators, using the expanded LB701 NRD taxing authorities to pay for them. Assuming that LB701 can be modified in 2009 to meet constitutional challenges (by extending the taxing authorities to all NRDs, to all fully-appropriated basins, etc.), this might be a viable policy, particularly if Kansas agrees to allow Nebraska to reduce irrigated acres over time through a buyout policy.

Maybe Nebraska and Kansas water officials are working on a compromise to settle the current Republican River impasse. Whether Kansas, the Nebraska Department of Water Resources (DNR) and the NRDs can come up with a plan agreeable to all remains to be seen. In the past several years DNR officials have privately suggested that significant irrigation cutbacks in the Republican River Basin will be required to bring the state into long-term compliance, perhaps 40 percent or more. While this is less than the 50 percent currently demanded by Kansas, it still is a lot. Paying for this would still cost hundreds of millions of dollars, and is probably beyond the financial capabilities of NRDs. Unless the federal government can be persuaded to pick up all or a significant part of the tab, significant state funds would be needed to supplement NRD funds to make this work – an as yet unresolved Nebraska water policy issue. The cheaper approach is to require irrigators to in effect, eat the cutbacks. There is no easy way out of this dilemma, but the water cutback by regulation option is the cheapest option if the Governor and Unicameral see it that way.

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