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2006 Nebraska Water Policy Choices

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CORNHUSKER ECONOMICS

2006 Nebraska Water Policy Choices

Market Report	Yr Ago	4 Wks Ago	12/2/05
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$89.94	\$88.98	\$93.33
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	124.07	131.26	134.41
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	107.84	117.65	*
Choice Boxed Beef, 600-750 lb. Carcass	146.65	145.30	150.80
Western Corn Belt Base Hog Price Carcass, Negotiated	82.73	59.69	60.58
Feeder Pigs, National Direct 45 lbs, FOB	58.36	54.95	57.72
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	79.05	64.09	67.67
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	91.62	93.75	87.00
National Carcass Lamb Cutout, FOB	232.39	246.15	243.77
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Omaha, bu	3.31	*	*
Corn, No. 2, Yellow Omaha, bu	1.71	1.54	1.79
Soybeans, No. 1, Yellow Omaha, bu	5.11	5.41	5.48
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.63	2.27	2.46
Oats, No. 2, Heavy Minneapolis, MN, bu	1.83	1.87	2.19
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	117.50	117.50
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	37.50	37.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	52.50	52.50
* No market.			

Nebraska is blessed with relatively abundant (but not unlimited) ground water supplies. In the tradition of other western states with significant ground water supplies, Nebraska has followed a largely local-control approach to ground water management. This means that local political subdivisions (Natural Resource Districts, or NRDs in Nebraska, other ground water districts in other states) have had the option whether to regulate ground water development and use to extend the life of local ground water supplies. In Nebraska, as well as in Texas, there has traditionally been no effective state role in ground water management – if ground water problems developed and the local district ignored them, the state had no authority to step in. Arizona’s local control ground water management philosophy was changed dramatically to a state control program in the early 1980s, primarily because Wall Street signaled it would refuse to continue financing Arizona’s real estate development unless the long-term adequacy of municipal water supplies could be assured. Arizona responded with new legislation closing overdeveloped areas to new wells, by imposing water use efficiency requirements on ground water irrigators, by requiring real estate developers to demonstrate a 100-year assured water supply for new residential subdivisions and by allowing farmers to sell their water rights (with much water being sold to real estate developers).

The limitations of Nebraska’s local ground water control philosophy have been exposed in the Republican River Compact (RRC) lawsuit with Kansas and the implementation of the Platte River Cooperative Agreement (PRCA) on endangered species. In the Republi-

can, ground water pumping for irrigation causes use in excess of Nebraska's allocation in drought years. On the Platte, pumping of hydrologically connected wells ("HC wells") that are junior (i.e. later in time) to the July 1, 1997 PRCA will require junior HC well owners to offset any stream depletion caused by their well pumping that violates endangered species streamflow requirements.

Traditionally, Nebraska water policy has been the almost exclusive province of irrigators and the agricultural groups of which they are members. Ground water irrigators have opposed state control of ground water for over 50 years, preferring the local control approach that has largely played to ground water irrigators' interests. One NRD – the Upper Republican NRD in Chase, Perkins and Dundy counties in Southwest Nebraska – has restricted well drilling and has restricted irrigation well pumping. The Upper Republican NRD has won numerous state and national awards for its innovative ground water management policies. But the Upper Republican experience is the exception that proves the rule. No other NRD has taken regulatory steps similar to the Upper Republican until the Middle Republican and Lower Republican NRD adopted similar regulations this year to meet RRC settlement requirements.

The agricultural monopoly on water policy making in Nebraska is likely to change significantly in 2006. The Nebraska Water Policy Task Force, established to make water policy recommendations to the Governor and Unicameral, is considering a recommendation that the state allocate an estimated \$300-\$375 million (\$20-25 million a year for 15 years) to purchase and retire land from irrigated production in the Republican and Platte Basins. With an annual state budget of approximately \$3 billion, \$20-25 million a year is less than one percent, but still a significant amount, enough to take discussion of these policy options out of the "non-controversial" category. The dollar amounts are large enough to generate interest from urban senators, ensuring that the debate will not occur solely within the agricultural community.

Whatever money the state would contribute would probably have to be matched by NRDs at the local level. NRD taxing authorities would need to be modified to make this feasible. The money would be used to pay irrigators not to irrigate. It isn't clear whether the payments would be to permanently retire

land from irrigated production, to compensate farmers for cutting back irrigation in a water-short year or some combination thereof.

NRDs currently are authorized to impose reductions in irrigated acres, just as they are authorized to prevent new well drilling and to limit how much water irrigators pump. At least in theory, NRDs could require acreage reductions sufficient to meet all RRC and PRCA requirements without paying irrigators anything. If NRDs refused to do so but the State Department of Natural Resources felt that such actions were required in order to comply with RRC and/or PRCA requirements, the decision would be made by what I refer to as the Governor's Mediation Board. Given the fiscal conservatism of most Nebraska governors, they are likely to favor the least-cost alternative.

We find ourselves in the current situation in large part because of our adherence to the local control approach to ground water management. Now that the shortcomings of this approach have been exposed, it won't be surprising to see at least some (if not most) state legislators hesitant to commit significant state funding to retiring irrigated acres in problem areas, especially when education, medicaid and tax relief are competing for the same funds. There are no easy answers, but 2006 will likely include a high-profile political debate on financing water management programs.

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