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RIM AND CRP: TWO MARGINAL CROPLAND RETIREMENT PROGRAMS

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RIM AND CRP: TWO MARGINAL CROPLAND RETIREMENT PROGRAMS

Steven J. Taff*

The federal conservation reserve program has a state-level counterpart, the Reinvest in Minnesota (RIM) Reserve, designed in conscious parallel to the CRP. RIM capitalized on the high visibility accorded the federal program and incorporated many of its features. In this paper, I examine some critical differences between the programs and how those differences affect program design and implementation. My intent is not so much to evaluate the two programs' impacts--it's too early for that--as it is to examine two different approaches to somewhat similar problems. I focus on program goals, targeting procedures, property rights assignments, and payment procedures. What can the Minnesota experience tell us about designing land retirement programs in general and about redesigning the CRP in particular? RIM was able to capitalize on early experience from the CRP; it may now be an opportune time to let the CRP learn from RIM. I assume a general familiarity on the part of the reader with the CRP and its provisions. This allows me to concentrate on RIM and its departures from the federal program. These are the critical differences, as I see them:

1. RIM is a wildlife/soil conservation program, while the CRP is a soil conservation/supply control program.

* Assistant Professor and Extension Economist, Department of Agricultural and Applied Economics, University of Minnesota. Prepared for NCR-111 Summer Meeting, St. Louis, Missouri, June 9, 1987. Thanks to Bill Easter, Jerry Fletcher, and Greg Larson for comments and criticisms. This study was supported by the Minnesota Agricultural Experiment Station.

2. RIM targets lands on the basis of low productivity, erosion-caused productivity loss, and habitat potential. The CRP targets only on the basis of high soil loss.

3. RIM pays landowners up-front for an easement. The CRP pays annually for a contract.

4. RIM makes a take-it-or-leave-it offer for selected parcels; CRP entry is (at least nominally) governed by a bidding process over a broad pool of eligible acreage.

The RIM Reserve spent all of its allocated \$10 million in 1986, bringing in some 22 thousand acres (about 0.1% of the state's cropland), spread over 80 counties. All RIM payments are made in a lump sum, so the \$10 million didn't go very far--no county had more than 1,300 acres enrolled. By contrast, through February 1987, the CRP has enrolled nearly 1.3 million acres in Minnesota, with annual payments totalling more than \$73 million. Several counties each have more than 70,000 acres enrolled.

Table 1 shows the top five Minnesota counties in each of the two programs.

While RIM is clearly the CRP's little brother as far as geographical coverage, the Minnesota program still enjoys wide public visibility and political support, such that its renewal during the 1987 legislative session faced opposition only because of a projected budget shortfall. In the end, the Legislature authorized an additional \$19 million in bonding over the biennium: \$9 million of this is to go to the Reserve. Some small but critical changes were also made in the way the program is to be run.

Table 1. Top five counties in RIM and CRP enrollment: Minnesota

<u>RIM</u>		<u>CRP</u>	
<u>County</u>	<u>Acres</u>	<u>County</u>	<u>Acres</u>
Otter Tail	1,275	Marshall	124,928
Polk	1,125	Otter Tail	91,100
Sherburne	722	Pennington	72,978
Stearns	681	Polk	71,785
Isanti	652	Roseau	69,154
STATE	21,313	STATE	1,481,295

Note: CRP enrollments are through the February 1987 round.

Sources: Minnesota Department of Agriculture and U.S. Department of Agriculture.

PROGRAM GOALS

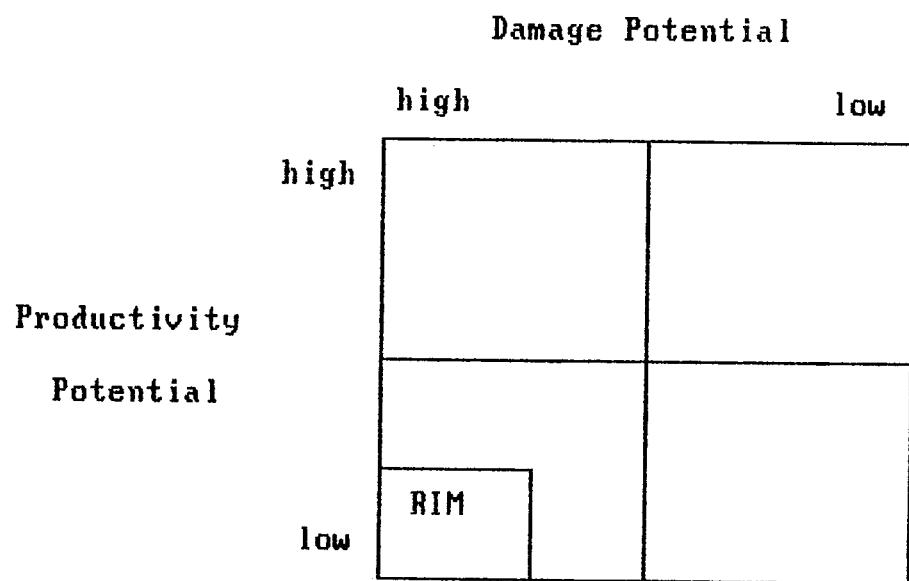
RIM was enacted in 1986, following the recommendations of a special Governor's advisory committee on hunting and fishing development in the state. The RIM Coalition, a mixed bag (but an effective lobbying force) of wildlife, conservation, environmental, and farming interests, convinced the Legislature that a reserve patterned after the then-emerging federal CRP would simultaneously meet many of these groups' goals.

The stated legislative intent for RIM is to "keep certain marginal agricultural land out of crop production, to protect soil and water quality, and support fish and wildlife habitat." A similar shopping list of goals underlies the federal program, but CRP implementation has focused on two: reduced soil erosion and reduced commodity crop production. While the soil erosion features of the RIM Reserve are important, RIM gained much of its political support because of its association with wildlife enhancement. While "RIM" and "the RIM Reserve" are often used interchangeably, the fact is that roughly half of RIM funding goes to non-Reserve habitat improvement programs such as wetland and prairie acquisitions. Notably absent from the Reserve component is any of the CRP's attention to reducing commodity production or government price-support program outlays. In fact, as we shall see, RIM goes out of its way to retire relatively non-productive lands.

TARGETING

The CRP essentially defines marginal land as highly eroding land: the original eligibility criterion was based on actual soil loss, while a new criterion mixes potential and actual soil loss.¹ For RIM, on the other

Figure 1: Locating soils in productivity/erosion damage space



hand, high soil loss and marginal land are not synonymous. Eligibility for the RIM Reserve is limited to those lands that are low in productivity and high in potential erosion damage. This selection criterion is designed to reflect the Legislature's definition of marginal land as "land with cropland soils that are inherently unproductive for agricultural crop production and subject to significant potential soil productivity loss from erosion." The specific targeting procedure used in RIM is detailed in Larson et al. (1987), based on a targeting philosophy espoused in Runge et al. (1986) and in Taff and Runge (1987a). The basic notion is that land parcels or soil mapping units can be ranked both by their productivity and by their tendency of either cause or be damaged by erosion, as in Figure 1.

To put numbers to Figure 1, the Minnesota program uses the Productivity Index (PI), which measures a soils inherent suitability as an environment for plant roots, and the Resistivity Index (RI), which measures reduction in productivity due to erosion loss, developed by Larson and others at the University of Minnesota. (See Roloff et al. for details.) The use of this second measure, and not some of its competitors, such as off-site damages, reflects the argument that productivity loss, while not a complete measure of erosion damage, at least has the virtue of being reasonably well understood and somewhat more measurable than are off-site damage effects. There is an implicit assumption that by targeting lands on this basis RIM will retire from production at least some of the lands that are causing difficult-to-measure off-site damages. (The CRP single soil-loss criterion is justified on the basis on the same implicit assumption.)

This two-facted characterization permits retirement programs to be targeted to soils located at various positions in Figure 1. The RIM Reserve, for example, makes a first cut at lands in the lower leftmost corner, the bottom 25% of each ranking, land that is low in productivity and high in vulnerability to erosion damage. To the extent that the CRP eligibility criteria correspond to RI, the CRP can be thought of as targeting lands on the lefthand side of the diagram. The two programs clearly target different lands--counties arrayed according to their CRP and RIM eligible acreages show a rank order correlation coefficient of only 0.30. One major advantage of the RIM procedure over that used by the CRP is its programmatic and budgetary flexibility. Eligibility pools can be expanded or contracted simply by shifting the cut-off points.

Initial RIM budget allocations are made among SWCDs on the basis of the relative predominance of targeted soils in their jurisdictions. Local screening committees adjust these lists to reflect local soil and terrain features. From the list of eligible lands offered by interested owners, desired lands are further pin-pointed on the basis of their habitat potential. This two-tier narrowing procedure serves to target RIM lands more than does the procedure used in the CRP, which accepts any and all eligible acres that are offered at or below the accepted payment level.

PROPERTY RIGHTS ASSIGNMENTS

As originally proposed, RIM was to have been funded through general revenues and was to acquire a cropping-rights contract as does the CRP. However, because the Legislature opted to fund the program through special bonding, a different transfer instrument had to be employed. The

Minnesota state constitution requires that bond proceeds be used only to acquire "substantial" property rights, a provision interpreted to mean that RIM had to obtain easements rather than contracts. Under the enabling legislation, RIM easements can be either of limited term or permanent, at the landowner's discretion. While there was some question at the time of original passage whether the opted-for ten year easement was a "substantial" property right, this concern was not reflected in legislation until this year, when the limited term easement was lengthened to a minimum of twenty years. There was also some initial concern that easement acquisition would be awkward to administer, thus resulting in unacceptably long processing delays that might discourage potential sellers. This does not seem to have been the case with the streamlined procedure developed by the State.

Easements have some advantages over contracts from a conservation point of view. The CRP can enforce its provisions only through contract law, while RIM can enforce through the presumably more binding property law. As a result, easements are potentially more restrictive. In addition, the CRP contract is void upon sale of the land, unless the new owner renews the contract with the government. The RIM easement, on the other hand, stays with the land as part of the title.

There may be a few problems with easements, of course. Of particular note is the potential for the seller to take the money and run. Whereas CRP payments go each year to the current landowner, who must maintain the conditions of the contract, the up-front nature of RIM payments severs the payments-compliance link. Theoretically, a landowner could sell a perpetual RIM easement to the State, pocket the money, and then deed the

RIM land to a third party who could promptly stop paying taxes on it. Through delinquency on this non-RIM residual, the State would end up with the full title to the land, more than it really wanted or would have been allowed (for political reasons) to seek in the first place. This potential loophole was partially closed by the recent addition of a RIM easement provision that mandates liability for tax payments by current owners. Enforcement against initial owners--who received the State's money and then sold the property--is still an open question.

PAYMENT PROCEDURES

Whereas annual CRP rental payments are obligated out of annual congressional appropriations, all RIM Reserve payments are made up-front, a feature designed originally to help distressed farmers with cash flow problems and to reduce the annual administrative burden for the State. For limited-term easements, the RIM payment is calculated by discounting a hypothetical stream of annual payments for the period of the contract. In the 1987 program, for limited-term easements, the State paid the present value (at 7%) of a ten year stream of 90% of the average accepted CRP bid in the area. For permanent easements, the payment was a one-time 70% of the average market value for tillable land in the township. In some parts of the state, a limited-term easement would be more costly than a permanent easement, because of the different payment schemes employed. In some (fewer) areas, one or both RIM payment options even exceeded the market rate for full title to marginal land.

The tie to CRP payments was intended to help the State determine how much it should pay for cropping rights to marginal land. Since the State

had decided against employing its own bidding procedure, it would use the CRP as a "price discovery" mechanism to help set RIM payment levels. The 90% figure was chosen so that RIM would not seem to be in competition with the CRP and so that landowners would at least consider entering the CRP--with its federal budget support--before turning to the RIM Reserve. (Of course, RIM has to compensate the farmer only for the income foregone from the retired land. The CRP has to pay as well for the loss of base--what Taff and Runge (1987b) call the "base bite".)

As things have turned out, the CRP bidding process is a sham. The maximum acceptable CRP bid (the "bid cap") in each area has become the conventional price for marginal land cropping rights. It's more a matter of what USDA is willing to pay rather than what the landowner is willing to receive. The problem with this as far as Minnesota's program is concerned is that CRP bid caps--originally set with an eye toward 1985 rental values--have not tracked land values at all well in many areas of the state. Bid-rent ratios of 1.5 or more are not uncommon as rents follow sale values downward in most rural areas of Minnesota (Table 2). This has resulted in politically embarrassing payments for some RIM parcels, since even 90% of CRP payments is for higher than current local rents. The visibility of these RIM payments is heightened by their being paid all up front. The same problem surfaced with payments for permanent easements, because assessed values frequently lag two or more years behind now-declining market values.

In the final analysis, the CRP bid link did not provide what was felt to be a reasonable surrogate for the value of cropping rights on marginal land. While this did not present a problem to potential sellers of RIM

Table 2: Representative CRP and RIM payment levels--Minnesota

County	<u>CURRENT</u>	<u>PROPOSED</u>	CRP Bid-Rent ratio (3)
	90% of mean CRP bid (1) (Dollars per acre)	70% of mean cash rent (2) (Dollars per acre)	
Blue Earth	82.48	59.91	0.99
Cottonwood	79.09	54.20	1.10
Dakota	77.34	39.50	1.42
Carver	64.03	42.76	1.15
Lac Qui Parle	66.93	35.09	1.40
Douglas	45.29	21.60	1.62
Big Stone	54.63	31.82	1.21
Kittson	41.57	21.41	1.44
Anoka	40.50	18.55	1.70
Aitkin	18.50	4.86	2.88

SOURCES: Minnesota Department of Agriculture and Minnesota Department of Revenue.

1. Average accepted CRP bid for first round 1987 retirements in relevant pool area.
2. 1986 Department of Revenue estimates.
3. 1987 maximum acceptable CRP bid divided by 1986 average rent.

easements, the State was concerned that it might be paying more than necessary. Recent legislation authorized an alternate payment procedure tied to rental values, with the idea that rents might reflect current values better than does the CRP bid cap. The scheme being considered by RIM program administrators is to pay 70% of the mean estimated rental value for cropland in each county. Estimated rent reports lag by only one year, and 70% is felt to reasonably approximate rents for marginal acreages. For limited-term easements, this scheme would result in payments ranging from 50 to 80 percent of those currently made with the CRP tie (Table 2). Whether or not as many owners will still be willing to participate at a generally lower rent-based level is an open question. Have landowners come to view the CRP-linked RIM payment level as the going rate, the "fair price", just as they seem to view the CRP bid cap itself?

CONCLUSIONS

The ongoing experiences of the RIM Reserve program might prove useful in designing future land retirement efforts at both the state and national level. Whether or not the design differences between the RIM Reserve and CRP lead to differences in their effects on wildlife habitat and soil conservation is a worthy of further research. Some of that research is underway in Minnesota, where we are paying special attention to whether or not the RIM multi-characteristics targeting approach will work. Is the process scientifically defensible, administratively practicable, and publicly acceptable? At this stage of our inquiries, a few observations are possible:

1. Public acquisition of cropping rights is politically acceptable.

Both the Minnesota and federal programs have encountered little resistance to a limited transfer of property rights, if the price is right.

2. A program linking public expenditures for cropping rights to landowners' willingness to receive is still to be tested. A true bidding system is perhaps conceptually preferable, but a fixed payment system based on current rental data may be a second-best option.

3. Easements are a preferable acquisition from a conservation viewpoint, while contracts are preferable from a farm-management flexibility viewpoint. Either instrument is administratively workable.

4. A targeting scheme that tempers soil erosion and productivity considerations with wildlife habitat objectives, as does the Minnesota program, is administratively workable and publicly acceptable.

5. Up-front payments are preferred by recipients, but they dramatically limit perceived program impact. They have the advantage of making program spending an annual legislative prerogative, rather than an annual obligation.

6. At least one state and likely others are well positioned to administer large land retirement programs. The Minnesota experience suggests that national conservation goals might be met through something like a block grant to interested states.

7. Parallel state and federal programs are nice in theory, but if people perceive the programs are too similar, they may begin to question whether both are needed and whether scarce state resources should be used to complement or supplement federal programs. Critical distinctions between similar programs, such as those summarized in this paper, need to

be clearly stated, and their implications clearly evaluated. Otherwise, long-term support for land retirement programs at the state level may be jeopardized.

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NOTES

¹ CRP eligibility is restricted to (1) those lands currently cropped in SCS capability classes VI-VIII, or currently-cropped class II-V lands that are eroding at more than three times the SCS-determined tolerance rate ("3-T" or greater) or exhibit severe gullyling or (2) currently cropped lands with an Erodibility Index of 8 or more that are eroding at a rate greater than T.