



“Acquire and Retire”

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Acquire and Retire Concept

1. Purchase irrigated cropland
 2. Convert the water to instream flow
 3. Sell the land as dryland cropland without irrigation potential
- The cost of water to the Program is the difference in irrigated and dryland cropland values, plus transaction cost
 - Initial interest has been with surface water
 - “Buy and dry” in a less damaging process



Economics of Acquire and Retire *back of envelope*

- The value of irrigation water in the Central Platte Basin is in the range of \$3,500/acre
 - Current irrigated land prices are in the range of \$6,000/acre to \$7,000/acre
 - Dryland prices are in the range of \$3,000/acre
 - The difference ranges between \$3,000/acre to \$4,000/acre
- Amortized over 50 years @3%, \$3,500 is equivalent to about \$136/acre/year
- If consumptive use is about 0.95/acre-foot/acre, net cost is about \$143/acre-foot/year, at farm turn-out



More Rigorous Economic Evaluation

- Acquire about 5,000 acre-feet of Program yield through the purchase of about 8,000 irrigated acres in Central Nebraska
 - Program would purchase about 500-1,000 acres per year until 5,000 acre-foot goal met
 - Program would sell these acres as dryland about 1 year after their purchase
 - Assumed irrigated land price = \$7,000; dryland price = \$3,500
 - Assumed 40% transit and depletion losses
 - Additional up-front transaction costs and dryland property taxes considered
- Over a 50-year planning horizon, the net cost is estimated to be \$223/acre-foot/year of Program yield



The “Pros” of Acquire and Retire

- Water is competitively priced; dealing in a competitive market
- Low commodity prices will likely limit increases in land prices
- Anecdotal evidence that land market may be more active over the next few years
- A component of a diversified water acquisition strategy
- Immediate implementation, but with flexibility to wait for good deals
- The Program has a “real” asset on their balance sheet



The “Cons” of the Strategy

- Up-front cash flow impacts
- Potential 3rd party impacts from reducing agricultural intensity
 - Indirect and induced impacts to rural communities – the “Crowley County” effect
- Potential to distort irrigated land market
- Possible reduction in tax base



Minimizing Adverse Impacts

- Spread the purchases over time and as wide of area as possible
- Focus upon least productive lands
- Consider purchasing land on contract rather than in single payment*
- Purchased acres will be a small % of total irrigated acreage, so impacts will likely be minimal
- Dryland crop production is still feasible, although yields are more variable

