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OSU Current Report

Cooperative Extension Service • Division of Agriculture • Oklahoma State University

The Conservation Reserve Program and the Bid Process

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As part of the Food Security Act of 1985, producers have the opportunity to place erodible land in the Conservation Reserve Program (CRP). The bid process is held periodically by ASCS. ASCS is responsible for implementing the program. SCS is responsible for determining if the land meets the erosion criteria.

A new sign-up has been announced for Feb 9-27, 1987. The steps are as follows:

(1) The producer should check with SCS or a soil map to determine eligibility based on erodibility. Be sure to consider your farm plan in determining the number of acres.

(2) Determine which conservation cover would be best. Again, visit with SCS/ASCS for alternate covers and your Extension office for agronomic and economic information. Then, make a partial budget to find the least cost conservation system. Be sure to consider establishment and maintenance expenses.

(3) The producer develops a bid, which is an estimate of the minimum he would be willing to receive as an annual payment for 10 years to cease any productive activity on the land and to establish and maintain an approved conservation system. Include what you are giving up--the value of the crop foregone (total return, deficiency payment and variable crop expenses).

(4) Submit the bid to ASCS during the sign-up period (February 9-27, 1987).

(5) Await the USDA announcement for approval, probably between mid-March and early April. If you are approved, return to ASCS to begin the contract process.

While there are a variety of techniques to develop an appropriate bid, the general idea is to estimate the opportunity cost or value of income lost, 50 percent of the cost to establish conservation cover (prorated over 10 years), and an estimate of annual maintenance cost. The producer may also wish to consider a time value of money.

USDA will pay 50 percent of the cost of establishing approved conservation measures and will pay an annual rental payment to compensate for conversion for 10 years and permanent retirement of any cropland base, and also provide technical assistance.

USDA simplifies this process by suggesting the appropriate bid be generally equivalent to the rental value of the land. Keep in mind that if the land also qualifies as highly erodible land under the conservation compliance provision a conservation system must be implemented by 1990 to be eligible for participation in any government program.

In the previous three signups, Oklahoma has approved more than 429,000 acres for CRP contract. Competition for bids is on a pool-wide basis. There are four pools in Oklahoma: the Panhandle, Northcentral, Southwest and East. Maximum approved bids ranged from $40 in the Panhandle to $45 for the Southwest and East to $50 for the Northcentral.

Attached are worksheets for you to annually estimate a bid for CRP. When completed, review the form by:

1. checking the work;
2. reconsidering any data left out or inaccurate estimates that may have been made.
3. re-evaluating to consider if prices or yields may be too optimistic, etc.; decide if you want to adjust for the time value of money.

CRP BID WORKSHEETS

I

Some of this information may be estimated on the other attached worksheets. Where this is done, the appropriate worksheet and line item is referenced for the result.

A. Assemble necessary data:

1.	Number of acres to be bid	_____
2.	Establishment expense qualified for 50% cost share (Worksheet II-F)	_____
3.	Other establishment expense (Worksheet II-G)	_____
4.	Annual maintenance expense (Worksheet III-E)	_____
5.	Annual returns foregone (Worksheet IV-Q)	_____
6.	Number of contract years	10
7.	Time value of money	_____

B. Calculate net initial outlay for establishment of cover:

1.	Cost share (A2 X 50%)	_____
2.	Your outlay (B1 + A3)	_____

C. Calculate your total outlay:

1.	Maintenance years (A6 - 1 year)	9
2.	Total maintenance expense (A4 x C1)	_____
3.	Total outlay (B2 + C2)	_____
4.	Average annual expense (C3 ÷ A6)	_____

D. Calculate annual minimum bid:

1.	Minimum bid per acre (A5 + C4)	_____
2.	Total annual contract bid (D1 X A1)	_____

WORKSHEET II

COVER ESTABLISHMENT COSTS

After checking with SCS/ASCS on recommended covers and expenses qualified for 50% cost share, select two or three covers you might consider, get budget information from your Extension office or other sources to estimate the costs to establish each cover. If there are other expenses that do not qualify for cost share but you decide they are important enough for your farm plan for you to implement them, use a similar partial budget format as the one shown below to estimate costs.

Variable expenses ($/acre)		Alternate covers (by type) 1._____	2._____	3._____
A.	Seed	_____	_____	_____
B.	Fertilizer	_____	_____	_____
C.	Fuel, oil, repairs	_____	_____	_____
D.	Labor hours X labor rate per hour	_____	_____	_____
E.	Total establishment cost qualified for cost share (A+B+C+D)	_____	_____	_____

F. Once you compare the alternate cover costs, consider the comparison of annual maintenance costs estimated in the next worksheet, along with any other non-qualified expenses and your own farm plan preferences. Then make your preferred choice.
Total establishment cost qualified for cost share for your preferred choice (select one amount from line E):
_____

G. Other establishment expense (non-qualified) for your preferred choice: _____

WORKSHEET III

COVER MAINTENANCE EXPENSE

Partial budget data to estimate average maintenance expense per year:

Variable Expense ($/acre)	Alternate Covers 1._____	2._____	3._____
A. Fertilizer and chemicals	_____	_____	_____
B. Fuel, oil, repairs	_____	_____	_____
C. Labor hours X labor rate per hour	_____	_____	_____
D. Annual maintenance expense (A+B+C)	_____	_____	_____

E. Annual maintenance expense for preferred cover (select one amount from line D): _____

WORKSHEET IV

RETURNS FOREGONE

To partial budget for returns that are given up, the producer must consider the cash value of the potential crop, potential government deficiency payments, other additional income that must be given up in the CRP such as livestock, less all variable costs that will not have to be expended. (NOTE: A similar computer version of this manual worksheet may be used to obtain "returns foregone". Ask your Extension office for CSS-23, 1987 Government Wheat Program Analysis Worksheet, September 1986, Agricultural Economics & Cooperative Extension Service, OSU.)

A.	Expected yield (bu./ac.)	_____
B.	Loan rate ($/bu.)	_____
C.	Nine months storage costs ($/bu.)	_____
D.	Loan minus storage costs ($/bu.=B-C)	_____
E.	Base harvest rate (% base acres)	_____
F.	Gross return ($/acre=A x D x E)	_____
G.	Expected Deficiency Payment ($/bu.)	_____
H.	ASCS program yield (bu./ac)	_____
I.	Deficiency payment ($/ac.=G x H x E)	_____
J.	Net additional income ($/ac)	_____
K.	Gross income ($/ac.= F+I+J)	_____
L.	Program crop variable cost ($/ac)	_____
M.	Non-program crop (ACR, CU, other) variable costs ($/ac)	_____
N.	Program crop variable cost adjusted for harvest rate ($/planted and harvested acres= L x E)	_____
O.	Non-program crop variable costs adjusted for set aside rate ($/non-program crop ac.= M x (1-E))	_____
P.	Total variable costs ($/base ac.=N+O)	_____
Q.	Return over variable costs ($/base ac.=K-P)	_____

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