

Lease Rate Policy Update Need and Purpose

The purpose of this update is to better align OSMP lease rates with current market values and provide a methodology to periodically review and adjust rates.

The current lease rates are significantly lower than current market values. OSMP staff has several concerns related to the current low lease rates:

- The rents have failed to keep pace with the increased costs associated with maintaining the properties.
- The current low lease rates have created an uneven playing field where other operators in the Boulder Valley pay significantly more for similar lands.
- The low lease rates make it difficult for the department to encourage outstanding stewardship and more sustainable practices.

Lease rates that align more closely with current market values will:

- Provide greater contributions to the costs associated with maintaining the properties.
- Even the playing field for agricultural operators in the Boulder Valley
- Create financial incentives to encourage outstanding stewardship and more sustainable practices.

Lessee Input and Next Steps

OSMP staff has developed several options to better align OSMP lease rates with current market values. We would like to hear your thoughts on the various options before making recommendations in the draft Agricultural Resources Management Plan (Ag Plan). The last page of this doc., [Lessee Input](#), lists some questions we would like you to consider when providing feedback.

Next Steps

February 5 th – 21 st	March - April	Late April- May	May-June	July
Lessee Comment Period	OSMP staff will refine the options and develop recommendations to be included in the draft Ag Plan	Draft Ag Plan public and lessee review/comment period	OSMP staff will revise the draft Ag Plan based on feedback	Request for Open Space Board of Trustees approval of draft Ag Plan

Table 1: Next Steps

Lease Rate Policy Options Summary

The options are described in more detail on the following pages.

In all options:

- The water assessments are proposed to be paid for by OSMP
- The lease rates will be re-evaluated be updated to reflect current market value every three years.
- An additional fee for the use of agricultural structures is proposed. The fee structure/lessee share is TBD.
(The policy will address housing rentals, new agricultural structures, and existing agricultural structures.)

Grazing Options *(Staff will recommend one option for grazing operations)*

1. Charge per Animal Unit Month (AUM)
\$20 per Animal Unit Month

Or

2. Fixed Cash Rent
 - \$5-12/acre Rangeland
 - \$20-50/acre Irrigated/sub-irrigated pasture
 - \$10-30/acre Aftermath grazing

Hay and Cropland Options *(Staff will recommend one option for hay and cropland operations)*

1. Crop Sharing Equivalent

<u>Crop</u>	<u>Share Rents (lessee% - OSMP%)</u>
Corn/Sorghum	67%-33%
Small Grains	67%-33%
Alfalfa	50%-50%
Grass Hay	50%-50%
Oil Seed, Millet	75%-25%

Or

2. Fixed Cash Rent
 - \$100-140/acre Good irrigated cropland, general crops grown (feed, cash crops)
 - \$80-95/acre Row cropped or hayed, average irrigation water and good irrigation season
 - \$65-75/acre Row cropped or hayed, average irrigation water and average irrigation season
 - \$40-60/acre Pasture or marginal hay crop. No annual cropping
 - \$16-20/acre Dryland crop

Diversified Vegetable Farming Proposal *(only one viable option was identified by staff)*

Fixed Cash Rent	
\$150+/acre	Fully irrigated cropland with adequate water and full season availability

Table 2: Lease Rate Options Summary

Agricultural Structures

Existing Structures

OSMP staff is proposing to charge for the farm-related structures that have an agricultural value existing on a property. The rental rate will be determined by taking into account function, condition, age, accessibility, and availability of utilities. The purpose is to recoup a portion of the costs to bring the structure into compliance with standards and ongoing costs to maintain the structures.

New Structures and Significant Renovations

OSMP is currently evaluating how to fund the construction of new structures and significant renovations that are both necessary for open agriculture and approved by OSMP staff (through the process described in the Agricultural Structures document).

Housing Rental Rates

OSMP is currently evaluating housing rental rates for those properties with dwelling units. (This will not affect existing life-estates)

Grazing Option 1: Charge per Animal Unit Month (AUM)

- *\$20 per Animal Unit Month AUM*
 - *\$20 is the median lease rate for privately owned non-irrigated pasture in Northeast Colorado.*¹
- *The number of AUM's charged/used by a lessee equals the number of animal units multiplied by the number of months they are on the range.*
 - *One Animal Unit equals one mature 1,000 pound cow or the equivalent as determined the Animal-Unit Equivalent Guide. (Table 3)*
 - *Failure, on the part of the lessee, to submit the required records documenting use by a pre-determined deadline, will result in fees for the maximum number of AUMs on all properties in addition to penalty fees*
- *Pre-established maximum number of AUM's*
 - *determined by OSMP*
 - *property specific*
 - *A penalty of \$35 per AUM will be applied for exceeding the established maximum number of AUM without prior approval.*
 - *Upon lessee request and in the event of a year with above average rainfall or other environmental conditions which results in increased available forage, the maximum number of AUM's may be re-evaluated to determine if the holding capacity of the property has increased and if additional AUMs should be allowed. (Lessees will be charged the \$20 per additional AUM.)*
 - *Supplemental feeding records will be incorporated into AUM calculations*

Animal-Unit Equivalent Guide	
Type/Class of Animal	AUM Equivalent
Cow with calf	1.30
Cow, dry	1.0
Bull, mature	1.35
Cattle, 1-year old	0.60
Cattle, 2-year old	0.80
Horse, mature	1.25
Sheep, mature	0.20
Lamb, 1-year old	0.15
Goat, mature	0.15
Kid, 1-year old	0.10
Swine	0.20

Based on Colorado State Board of Land Commissioners 2013

Table 3: Animal-Unit Equivalent Guide

¹ Tranel, Jeffrey., et al. Lease Rates for Privately Owned, Non-Irrigated Pasture for 2013. Colorado State University Extension. Agriculture and Business Management. www.coopext.colostate.edu/ABM/leaserates13.pdf

Grazing Option 1: Charge per Animal Unit Month (AUM)

Lessee Advantages	Lessee Disadvantages	Landowner Advantages	Landowner Disadvantages
<p>Lessee only pays for what is used/consumed</p>		<p>May result in less intense grazing as lessee' are not incentivized to harvest the maximum number of AUMs on a property in order to minimize the per AUM cost. <i>(This is not intended to imply the maximum allocated AUM's are unsustainable or do not adequately protect ecological systems, however there are benefits to conservative grazing practices including improved draught resiliency and increased wildlife heterogeneity.)</i></p> <p>More likely to receive complete and timely records as lessees are incentivized to submit records documenting use. Their records may likely result in a price reduction.</p> <p>Increased management flexibility to relocate use and/or implement rest periods mid-lease as property specific management actions will have less of an impact to lessee's costs (provided an alterative site is provided).</p>	<p>More staff time necessary to administer due to the need to verify AUMs and adjust rates accordingly.</p> <p>Variable revenue, based on the number of AUM's which may vary from year to year.</p>

Table 4: Charge per Animal Unit Month Advantages/Disadvantages

Grazing Option 2: Fixed Cash Rent

- Lease rates will be based upon the maximum allowed AUM's of a property multiplied by \$20. This equates to the following fixed rates:

Rent/Acre	Description
\$5-12/acre	Rangeland
\$20-50/acre	Irrigated/sub-irrigated pasture
\$10-30/acre	Aftermath grazing

Table 5: Grazing Fixed Cash Rents

- Pre-established maximum number of AUM's
 - determined by OSMP
 - property specific
 - Upon lessee request and in the event of a year with above average rainfall, the maximum number of AUM's may be re-evaluated to determine if the additional moisture and associated increased vegetation have increased the holding capacity of a property and if additional AUMs should be allowed.
 - A Penalty fee of \$35 per AUM will be applied for exceeding the established maximum AUMs without prior approval.
 - Supplemental feeding records will be incorporated into AUM calculations.
- Upon lessee request and in the event of a severe drought year or other environmental event resulting in a dramatic shift in forage availability and demonstrated lessee hardship the rent may be re-negotiated
- Penalty fess may be applied for not providing accurate and timely records.

Grazing Option 2: Fixed Cash Rent

Lessee Advantages	Lessee Disadvantages	Landowner Advantages	Landowner Disadvantages
<p>Known, fixed cost</p>	<p>Lessee assumes risk of annual fluctuations in forage production</p> <p>Lessee pays for the maximum number of AUMs regardless of actual number harvested.</p>	<p>Predictable revenue stream</p> <p>Less staff time necessary to administer the program.</p>	<p>May be less likely to receive complete and timely records as there are less incentives for the lessee i.e. records will not result in a price reduction.</p> <p>May result in more intense grazing as lessee' are incentivized to harvest the maximum number of AUMs on a property in order to minimize the per AUM cost.</p> <p>Decreased management flexibility to relocate use and/or implement rest periods mid-lease as property specific management actions will have more of an impact to lessee's costs.</p>

Table 6: Grazing Fixed Cash Rent Advantages/Disadvantages

Hay and Cropland Option 1: Crop Sharing Equivalent

- *Total returns are split between the lessee and OSMP, with the percentages determined by prevailing share rents for each crop type in the area.*

Crop	Share Rents (Lessee% - OSMP%)
Irrigated Land	
Corn/Sorghum	67%-33%
Small Grains	67%-33%
Alfalfa	50%-50%
Grass Hay	50%-50%
Non-Irrigated Land (Dryland)	
Corn/Sorghum	67%-33%
Small Grains	67%-33%
Oil Seed and Millet	75%-25%
Alfalfa	50%-50%
Grass Hay	50%-50%
<small>Adapted from Custom Rates for Colorado Farms & Ranches in 2014</small>	

Table 7: Crop Share Lessee/OSMP Ratios

- *Net income is determined by subtracting the inputs from the gross yield. (including but not limited to fertilizer, pesticides, and seed)*
 - *OSMP will pay for the annual ditch assessments associated with each individual parcel in full (not to be considered as an input or deducted from the gross yield)*
 - *Labor will not be considered as an input or deducted from the gross yield*
- *Supplemental water use above and beyond the ditch shares associated with the property (Colorado Big Thompson, storage water) must be requested by the lessee. The cost for this water will be split equally if its use is approved by OSMP (to be considered as an input).*
- *For the alfalfa and grass hay crop share, lessees will be responsible for marketing OSMP's share of the crop. If a lessee desires to buy OSMP's share for personal use, the crop will be sold to lessee at market value, determined by an average annual value from the Colorado Agricultural Marketing Service.*

Hay and Cropland Option 1: Crop Sharing Equivalent

Lessee Advantages	Lessee Disadvantages	Landowner Advantages	Landowner Disadvantages
Lower financial risks	<p>More record-keeping required to document production and input expenses</p> <p>Lower expected return due to income-sharing (may be offset with no fixed rent as an input)</p>	<p>Increased revenue in a high production year</p> <p>More frequent opportunities for input on production decisions</p>	<p>More staff time necessary to administer due to the need to verify production expenses and yield information.</p> <p>Decreased revenue in a high production year</p>

Table 8: Crop Share Equivalent Advantages/Disadvantages

Hay and Cropland Option 2: Fixed Cash Rent

- *Each property will be categorized based on water availability, soil characteristics, historic yields, management restrictions (e.g. cutting limitations)*
- *Supplemental water use above and beyond the ditch shares associated with the property (Colorado Big Thompson, storage water) must be requested by the lessee. The cost for this water will be paid for by the lessee.*
- *Initial cash rents will be guided by Boulder County Parks and Open Spaces rents*

Rent/Acre	Description
\$150+/acre	Fully Irrigated cropland with adequate water and full season availability (vegetables)
\$100-140/acre	Good irrigated cropland, general crops grown (feed, cash crops)
\$80-95/acre	Row cropped or hayed, average irrigation water and good irrigation season
\$65-75/acre	Row cropped or hayed. Average irrigation water and average irrigation season
\$40-60/acre	Pasture or marginal hay crop. No annual cropping
\$16-20/acre	Dryland crop

Table 9: Hay and Cropland Fixed Cash Rents

Lessee Advantages	Lessee Disadvantages	Landowner Advantages	Landowner Disadvantages
Known, fixed cost	Higher financial risk	Less staff time necessary to administer Low financial risk Predictable revenue stream	Less frequent opportunities for input on production decisions resulting in a need to outline all management considerations in the lease

Table 10: Hay and Cropland Fixed Cash Rent Advantages/Disadvantages

Lessee Input

Do you think the rates proposed for the various options strike an equitable balance between the departmental desires to recover a portion of the costs associated with owning and maintain Agricultural lands and ensure the success of local farmers/ranchers? (Please consider current market values and the tradeoffs associated with leasing open space lands) If not, how would you suggest re-calculating the rate?

What other lessee advantages or disadvantages are there for the various options?

Which option would you prefer for your operation and why?

Do you think lessees should contribute funds toward maintaining existing structures and constructing new necessary structures? Is so, how? What should be the lessee share?

Do you have any suggestions regarding the implementation of a new lease rate policy?

Other Concerns/Comments?