

THE WISE AG UPDATE



THIRD QUARTER, 2016

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COMMENTARY by Murray Wise



I'm going to use this column to offer you my perspective regarding an important situation for our industry and what we can and must do about it.

On the surface it's very simple. The Des Moines Water Works (DMWW), a public utility, has sued three Iowa counties operating drainage districts, stating that the districts violate the Clean Water Act (CWA) by allowing stormwater that is discharged out of drainage tile to get into the Raccoon River and transported to DMWW 180 miles away. The CWA "establishes the basic structure for regulating discharges of pollutants into the waters of the United States and regulating quality standards for surface waters", per the EPA web site. Also from the website: "The CWA made it unlawful to discharge any pollutant from a single source into navigable waters unless a permit is obtained." These are called point sources. The CWA, however, goes on to explicitly say that a point source "does not include agricultural stormwater discharges..." To me, that's pretty clear. But not to DMWW.

The utility incurs costs managing the level of nitrates in the water it sells in the Des Moines area. To shift those costs,

they are asking for the perversion of the language in the CWA. I say perversion because heretofore in its 40 year history, neither EPA nor the Iowa DNR has ever applied the CWA to the discharges claimed by the utility.

Clean water is obviously important to us all. Iowa farmers are good citizens and they recognize that to the extent there's a problem, they should be part of the solution.

The reason has been clear for 40 years: the terms of the CWA prohibit it. What DMWW is trying to do is reinterpret the regulations as written so that the drainage districts are viewed as "point sources" even though they are only aggregating runoff water as they are required to do under Iowa law. The suit says that the districts need permits they don't have and are therefore in violation of the CWA. The real objective here isn't issuing permits, of course. The DMWW wants to shift costs and the environmental groups involved simply wish to establish control over the entire agricultural system.

So what is at stake here? If the environmentalists and the utility

prevail, the potential compliance costs to drainage districts could run into many millions of dollars according to some studies. And, since the drainage districts are essentially cooperatives, the individual farmers would ultimately bear the cost. Obviously increased costs reduce profitability and the last domino is the value of the farmland itself. In our opinion nothing less than the long term health of production agriculture may lie in the balance.

This is not to say there is no problem here. Clean water is obviously important to us all. Now, Iowa farmers are good citizens and they recognize that to the extent there's a problem, they should be part of the solution. To that end, they developed a program of resources and ideas to voluntarily reduce the amount of nitrates released into the river and there has been improvement. Despite what you may have been told, it is beginning to be effective. For example, even though more corn acres are planted, nitrate levels have actually declined in the Raccoon River over the past 10 years. That cooperative, common sense, effective approach doesn't seem to satisfy the utility or its environmental allies, however. They still brought suit.

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COMMENTARY (CONT.)




Now to the Point

Drainage districts are not cash rich corporations (like public utilities or environmental groups) and they're now faced with defending themselves from well financed, ideological, and committed foes. The local farmers and landowners cannot absorb the cost of defending themselves - and the rest of the country. They need help now. I intend to provide some cash assistance and to use whatever forum I can to ask you and others to help fund this defensive effort with your donations.

As I hope I've made clear, this isn't about the three Iowa counties and their permit-less drainage districts. The potential cost of losing this fight would be hundreds of millions of lost farm profits and billions of dollars in underlying value of farmland assets. Private parties are attempting to pervert the law as written and interpreted for

decades to their own private purposes. The CWA has already moved amoeba-like into areas its sponsors didn't intend and the next such perversion could involve your property. We all have an interest in seeing the defendant drainage districts prevail.

If you can help send contributions to the Sac County Legal Defense Fund c/o

Sac County Auditor, 100 S. State St #1, Sac City, Iowa 50583 or to Belin McCormick Trust Fund c/o Charles Becker, Belin McCormick, P. C., 666 Walnut St., Suite 2000 Des Moines, Iowa 50309. 

Water Works Lawsuit Delayed

A federal judge delayed the opening of the lawsuit brought against three rural Iowa drainage districts by the Des Moines Water Works. The trial was to begin in August 2016 but has been postponed to permit the Iowa Supreme Court to resolve some constitutional questions raised in federal court.

Those questions involve one of the most contentious issues in the dispute: is the water in drainage ditches is farm runoff and, thus, exempt from the Clean Water Act.

The trial date was re-set for June, 2017. In the interval, tremendous funding is needed to defend the drainage districts and the ag community as a whole --- please help!

CONSIDERING SELLING FARMLAND?



Think farmland values are headed for some tough times...a significant correction...or even a bursting "bubble"? Thinking of selling?


There is unquestionable uneasiness among farmland owners across the country. Soft commodity prices have recently dampened farm incomes and the near term future isn't promising. Farmers looking for ways to control costs will certainly look to negotiating rents and terms. As a result some investors and investment advisors anticipate lower income and, ultimately, lower asset values.

However, as is often the case, the actual situation does not reflect the anticipated circumstances. There is actually less land on the market than in many past years and investors are generally

maintaining their long term, patient approach. Recently Progressive Farmer quoted Bruce Sherrick of the University of Illinois. He said, "Land investors' expectations of future income are more like climate, not weather. If it rains too much one season, it doesn't mean the climate has changed any more than an abrupt correction in commodity prices necessarily undermines farmland values with a 30-50 year history of double digit appreciation." The same article notes another respected analyst's opinion that the "inventory" of land for sale is 40% lower than in peak years.

With low inventory of properties available and investors maintaining and reinforcing their positions, the anticipated impact of falling farm incomes and soft commodity prices on land values has been muted.

And, then there is the problem of what to do with the cash raised. Depending on where one's information is derived both the stock and bond markets are expensive, maybe even overvalued. Buy a certificate of deposit? Not likely, though in the U.S. our return is still positive (if pitiful and way below government inflation targets - see Interest Rate Madness on page 3)

So, given this situation should a farmland investor consider selling while prices remain strong? Or holding to watch for acquisition opportunities if predictions of falling land prices prove correct? The answer, as always, is maybe, depending on one's circumstances. This decision is personal based on individual circumstances, financial considerations, and all the factors involved in the buy/sell decision of any asset. 

SUCCESSFUL RETAIL APPLICATION OF OUR AUCTION SYSTEM



In May, Murray Wise Associates (MWA) partnered with Paine/Wetzel – TCN Worldwide (PW) to market and sell the retail real estate and operating grocery store assets of Joe Caputo & Sons, Inc. and related entities using our multi-parcel auction system. The public auction drew more than 100 attendees and nearly fifty registered bidders. Both grocery operators and real estate investors were represented at the auction, with Piggly Wiggly Midwest ultimately buying all of the real estate and grocery store assets for \$33.7 million.

The Caputo assets were offered in six

tracts: three retail real estate parcels totaling more than 267,000 square feet and three operating stores including grocery inventory and store fixtures in the northwest Chicago suburbs of Palatine, Algonquin and Des Plaines. As in any of our multi-parcel auctions, bidders were free to bid on the entire operation, any of the individual tracts or any combination of tracts.

Regular readers of this newsletter know that MWA is one of the nation's foremost land marketing firms due in large part to the long term success of our multi-parcel auction system. Our

system uses the dynamics of multiple layers of competition to maximize results. Ken Nofziger, who managed the sale for MWA said, "It's clear that the multi-parcel auction system was a major reason for this very successful sale. I think we demonstrated conclusively that our proven approach of testing the sum of an asset's or portfolio's parts versus the whole is a great way to market any bundle of assets, whether its farmland, apartment buildings or retail/commercial real estate."

Ken also noted that the other major reason for the success of this project was the expertise and relationships provided by PW. PW is a commercial real estate firm headquartered in Chicago that specializes in the leasing and disposition of retail, office and industrial properties. According to Ken, "Ed Wabick and his team of professionals at PW provided the local market knowledge and access to investors and operators critical to the success of this auction. It was a pleasure working with PW and we look forward to partnering with them on future projects involving commercial real estate assets." ◆

INTEREST RATE MADNESS



Though interest rates are among the dynamics that stir the market for farmland we've rarely felt compelled to comment on their impact outside of that market.

However, given the number of nations whose bonds are currently earning negative interest rates (not sure "earning" is even the correct term) we just have to wonder:

Who in the world is going to lend their government a hundred thousand Euros, Kronen, Francs or Yen so that in ten years they will be repaid ninety five thousand.

Today, there are more than \$12 trillion in negative rate bonds throughout the world. Apparently the idea is to somehow jump start national economies though exactly how eludes us. In fact we just read comments by one of our favorite financial advisors who says that, contrary to that boost effect, negative interest rates damage banking, insurance, and other financial institutions that are critical to our capitalist economic model.

Another noted pundit we appreciate recently opined that negative interest rates were particularly punitive to those individuals who have prudently

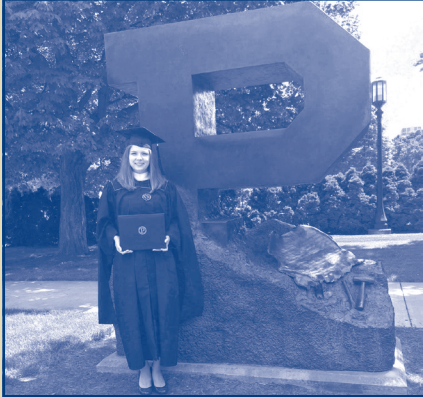
managed their lives only to have their income eliminated as they retire. According to the St. Louis Fed, at the end of the day these negative interest rates are nothing more than a tax in sheep's clothing.


In the midst of this silliness, those same governments issuing bonds with guaranteed negative rates are moving to make it more difficult to hoard cash by eliminating higher denominations of their currency. And to add insult to injury, some Swiss banks have even started charging their customers for holding cash.

As we said, we just have to wonder. ◆

THE WISE AG UPDATE

Congratulations to Our In-House Ag Economist!



Congratulations to Kati Churchill for earning a Masters of Science in Agricultural Economics from Purdue University. Churchill will complete the 2nd master's in the dual degree program later this year, earning her MBA from Indiana's Kelley School of Business in November. 


MWA FOUNDATION SCHOLARSHIPS



As this newsletter is being prepared, the 2016 Murray Wise Associates Scholarship winners are being notified of their awards. This year the Foundation received more than 300 applicants from graduating high school seniors as well as current college students in 43 states.

These bright young people have demonstrated scholarship, community involvement, and a commitment to agriculture. They are exactly the sort of future leaders the Foundation was established to assist.

The Foundation provides an annual, unrestricted cash stipend to selected students provided they remain in good academic standing in an agriculturally related field of study.

If you are or are aware of such a young student you should go to our website app.murraywiseassociates.com and download an application for the 2017 awards. 

UPCOMING AUCTIONS & LISTINGS:

SEPT 15 - 253± Acres in Fayette & Greene Counties, OH. 3 farms offered in 9 tracts, ranging from 3 to 110± acres.

OCT 15 - 524± Acres in Meigs County, OH. Farmland and timber offered in 16 tracts, ranging from 7 to 68± acres.

LISTING - 131± Acres in Wright County, IA. 127.7 tillable acres, CRS2 73.8



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