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THE WISE AG UPDATE

Your source for farmland & agribusiness transaction news by Murray Wise Associates LLC

A WATERSHED MOMENT FOR WATER ON THE CALIFORNIA WESTSIDE

BY JOE BUBON

"Whiskey is for drinking; water is for fighting!" A quote often attributed to Mark Twain has rung true in California, a state famous for its "water wars," for more than a century. Today, when reading about the water situation in California, you are likely to see the Westlands Water District mentioned. This is no surprise as it is the largest and by far the most powerful single water institution in California. Earlier this year critically overdrafted sub-basins in California were required to submit Groundwater Sustainability Plans (GSP) to the state, and the Westside (the subbasin the Westlands Water District lies within) is certainly one of the areas most affected by the Sustainable Groundwater Management Act (SGMA).

Also, on Feb. 19, President Trump signed a Record of Decision on a new federal Biological Opinion that is meant to update the biological science behind Endangered Species Act decisions from over a decade ago that greatly impact water deliveries to "South-of-Delta" water districts such as Westlands. In another development, the Westlands district on Feb. 28 entered into a permanent water contract with the U.S. Bureau of Reclamation securing water supplies long-term.

To say it has been an important few months would be an understatement. But to understand completely how each of these recent events affect the district, which extends from Kettleman City on the south to Mendota on the north, we need to start with the water that lies beneath the ground -- and the Sustainable Groundwater Management Act. Many of the farmers on the Westside rely on groundwater for a large portion of

the water they use each year. From 2013 through 2015, the Westlands Water District used more than 600,000 acre-feet per year of groundwater, compared with just 366,329 acre-feet total of water from the Central Valley contract the district has with the U.S. Bureau of Reclamation, which is for more than 1 million acre-feet per year. More on why the surface water allocation from the Central Valley Project is rarely even close to fulfilled will be addressed later. The dependence on groundwater usage brings us back to the Groundwater Sustainability Plan submitted in January. This plan outlines pumping allocations and overall reductions in pumping for landowners starting in 2022, creating a dire situation for many who rely on groundwater. There are two paths forward for these landowners: either rely more heavily on surface water, or fallow acres and use the water on fewer acres.

With groundwater allocations coming, surface water, which was already an issue of extreme importance, has become even more important. From 1999 to 2016, the Westlands Water District only once received its full allocation from the Central Valley Project. This in part has been due to the

Westside GSP Groundwater Allocation

Water Year	Allocation Cap
2022	1.3 AF per acre
2023	1.3 AF per acre
2024	1.2 AF per acre
2025	1.1 AF per acre
2026	1.0 AF per acre
2027	0.9 AF per acre
2028	0.8 AF per acre
2029	0.7 AF per acre
2030	0.6 AF per acre

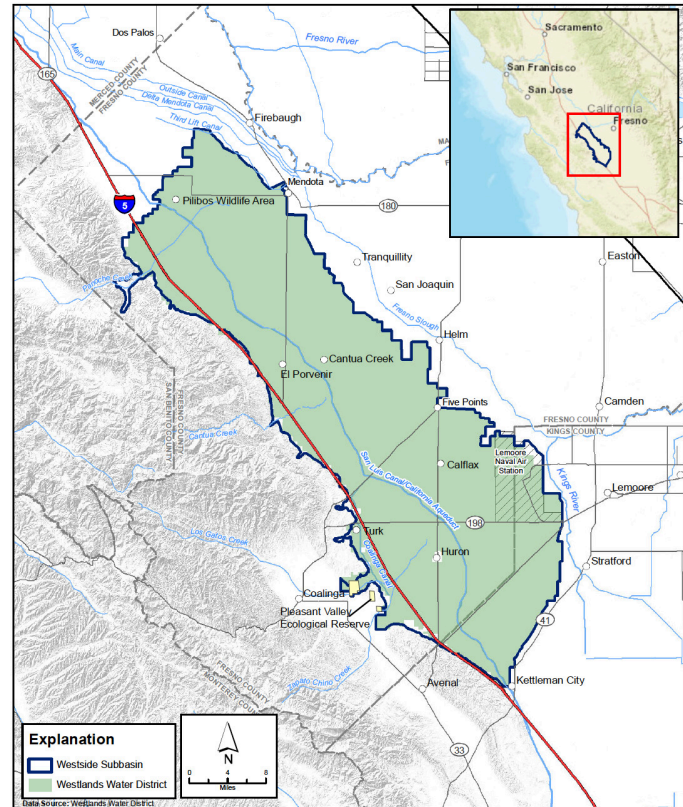
Continued on Pg. 2 (Westside)

WESTSIDE (CONT. FROM PG. 1)

Environmental Protection Act and biological data taken in the Delta that restricts water deliveries. The Westlands has always been a political organization fighting for its right to receive its water allocation, and in 2016, it gained a good amount of political power in the federal government with the election of Trump to the presidency and Westlands allies to Congress, as well as subsequent appointments in the executive branch. The state government went to work on Senate Bill 1, a bill that would solidify environmental law to the day before Trump took office in 2017. This bill was eventually vetoed by Gov. Gavin Newsom, and negotiations have been taking place since on the best way to mitigate the situation with a balance between environmental protection in the Sacramento-San Joaquin Delta and deliveries of water to “South-of-Delta” districts. This changed in February, with President Trump signing a Record of Decision on updated biological opinions that would drastically help the Westside receive a greater allocation of its Central Valley Project contract allocation on a yearly basis. Immediately, the state government made it clear that it would sue the federal government to block this decision. This situation is ongoing, and a resolution is not likely to be reached in the immediate future. Even if the Westlands district receives more surface water deliveries, it is unlikely this will solve the problems the Westside is facing.

The situation on the Westside is frightening any way you look at it, and no matter what resolution is reached on surface water allocations, fallowing of land will have to occur. This creates an issue for many farmers as, in order to comply with the Reclamation Reform Act, they can receive surface water for only 960 acres due to acreage limitations. To fallow acres in order to have enough water would be crippling for district farmers whose average farm size is 875 acres. Fortunately, on Feb. 28, the Westlands Water District entered into a permanent water contract that will end the acreage limitations. This will likely lead to larger farms, allowing for fallowed acreage to be more easily absorbed. Also, this will allow pension funds, institutional investors, and publicly traded real estate investment trusts (REITs) to own farmland on the Westside and receive surface water from the Westlands Water District. That should

Westlands Water District / Westside GSA



Source: Westside GSP

drastically help stabilize the value of farmland in the area, which has been hit hard by the Sustainable Groundwater Management Act.

It seems likely that unemployment will rise and the economy will struggle with SGMA on the Westside. However, with help from the federal government and increased investment activity, it is possible that these externalities of reduced groundwater will be mitigated. As an election that may shape the fate of the Westside nears, water will undoubtedly be the top issue in the region. Either way it goes, don't expect the Westlands to go down without a fight; after all, “Whiskey is for drinking; water for fighting.”

Joe Bubon is president of MWA. For information on investing in farmland, please call (217) 398-6400

IN THE NEWS: WOTUS UPDATE In our previous newsletters, we have discussed the ongoing deliberation of a 2015 rule put in place by the U.S. Environmental Protection Agency and the Department of the Army that expanded the scope of the “waters of the United States” (WOTUS) definition. On Jan. 23, 2020, the EPA released its finalized list of jurisdictional waters that fall under federal oversight. As we discussed in previous newsletters, major debate was created during the Obama administration when the definition of jurisdictional waters was greatly expanded, which put industries such as agriculture in the spotlight. This final rule creates distinct categories that deal primarily with navigable waters, lakes, ponds and tributaries to those waters, in addition to adjacent wetlands. The final rule even goes so far as to define what is not federally regulated, including groundwater, ditches and prior converted cropland. While this may be a topic that sees future modifications if there is a change in administrations, for now it seems settled.

WET 2019 PUTS DRAINAGE CENTER FOCUS

A wet spring in the Midwest in 2019 has made drainage a focal point for many farmland owners. Water is vital to agricultural production. When a crop receives too little or too much of this resource, its productivity is negatively impacted. Water management solutions promote soil health and provide plants with optimal growing conditions. The most commonly engineered solutions for water management are surface drainage, subsurface drainage and irrigation. Every farm is unique and requires proper due diligence in determining which solution is most appropriate. Variables that should be considered are soil type, topography (or slope), type of crop, available outlet(s), watershed acres and water access. Budgetary concerns can drive decision-making, but it's prudent to prepare for the future. It is possible that a project can be done in stages -- over many growing seasons and several budget cycles. The second-largest investment you will make on your farm -- other than purchasing it -- is improving it. A land improvement investment pays off for generations. Therefore, it is vital to protect this investment by having a third-party industry professional provide you with the data and information needed for making decisions.

When considering land improvements, a landowner should contemplate many factors. Soil identification and analysis are critical to engineering solutions. A specific soil's particulate size and drainage coefficient will dictate what solutions are viable. Without proper soil analysis, the engineering process cannot be implemented correctly. The topography of the farm and its watershed are also important in understanding which options are attainable for the farm. Topographic data collection is not a difficult proposition, but it must be done precisely to gather the most accurate data in locations critical for the project.

Drainage history tells us that landowners traditionally targeted "wet spots" or "troublesome areas" for their improvements. This was commonly referred to as "random drainage." Then the industry experienced a transition to "pattern" or "grid" tiling of an individual farm. This practice effectively managed the entire water table of an individual farm -- or so we thought.

The issue with that mindset is that soils absorb and shed moisture, and water takes the path of least resistance both on the surface and subsurface. So, although an individual farm may be "pattern" or "grid" tiled, the farm's drainage solutions were

engineered for that particular farm and not the watershed hydrology. As a farm owner, you should consider a watershed analysis that identifies how the neighbors' water impacts your farm. That analysis allows for the most effective and efficient engineered solutions. What is more appropriate is a holistic watershed model that allows an entire watershed to manage water and manage costs. Mutual drainage solutions shared by neighboring properties promote cost savings and improved water management.

One factor often overlooked when implementing drainage solutions is a farm's valuation. An appropriately executed water management system will result in an appreciation in value. This capital improvement, while increasing the value of the farm, will not have an impact on real estate taxes as other improvements do. Additionally, farms with water management systems tend to be more appealing to farm operators. These elements should be considered when making investment decisions. 🏡



Corey Getz is the CEO of DIGS Associates. DIGS Associates offers objective advice, innovative solutions and long-term service. DIGS partners with industry-leading professionals, facilitates sophisticated land improvement projects and serves as a long-term partner for land and water management solutions. The goal

is to maximize capital improvement investments and provide the most equity to clients on every project. For more information or answers to questions on water resources, contact DIGS Associates at 217-768-4930 or sales@digsassociates.com

Follow DIGS Associates on Twitter at @DIGSAssociates or visit their website: <https://digsassociates.com/>



CONGRATULATIONS to the scholarship winners from the Parkland College agribusiness management class for their work in predicting final sale prices of local auctions. The fall winner was Mitchell Meenen (center left) and the spring winner was Layne Harden (center right). These students have received \$1,000 each from MWA to further pursue their education in agriculture.

THE WISE AG UPDATE

CURRENT LISTINGS & UPCOMING AUCTIONS

Current Listings

Wright Co., IA - 112± Acres with a CSR2 of 80. Located north of Clarion, IA.

Wright Co., IA - 150± Acres with a CSR2 of 80.7. Located north of Clarion, IA.

Winnebago Co., IL - 154± Acres with 122.2 PI. 129± tillable ac. Asking \$6,500/ac.

Upcoming Auctions

McDonough Co., IL - 166± Acres - More Information Coming!

MWA Recent Transactions

\$ 725,000	80± ac	Wright Co., IA
\$ 1,000,000	115± ac	Wright Co., IA
\$ 5,700,000	637± ac	Humboldt Co., IA
\$ 393,000	44± ac	Webster Co., IA
\$ 861,000	123± ac	Winnebago Co., IL
\$ Pending	208± ac	Champaign Co., IL

MWA Foundation 2020 Scholarships To Be Announced This Summer

The Murray Wise Associates Foundation provides an annually renewable cash stipend to selected students demonstrating scholarship, community involvement, and a commitment to agriculture. For updates, contact us at info@mwallc.com

Visit MWAAuctions.com
or call (800) 607-6888 for
details on any property.

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