

REPORT ON LEASES OF UNIVERSITY FARMS, CROP YEAR 2008.

The University of Illinois has concluded its endowment farms lease process for the 2008 crop year and this correspondence summarizes the outcome, which I will report on at the March 26 Board meeting.

The open, competitive cash-lease process for 16 endowment farms resulted in a total of 194 proposals from 94 different prospective operators. Three-quarters of our incumbent farm operators, or 12 of the 16, renewed their leases. The university will receive \$900,000 more in rental income than last year to endow scholarships and research in the College of Agriculture, Consumer and Environmental Sciences (ACES) and to serve the agricultural community through 4-H and Extension.

The farm lease proposals came almost exclusively from members of the Illinois farm community, a majority of them in close proximity to the U. of I. farms. All but one of those who submitted proposals were from Illinois. And 54 percent of the proposals came from prospective operators who live within a 25-mile radius of the property on which they bid.

Price wasn't the sole determinant in the process and discretionary factors enabled many incumbent operators to make successful competitive proposals even though their respective cash-lease price wasn't highest. Of the 16 incumbent farm operators, three submitted the successful proposal outright and nine others exercised a right-of-first-refusal option to retain their operation. Four of the 16 incumbent U. of I. endowment farm operators declined to match the highest rated proposals and new operators were selected.

Based on the final lease agreements for these 16 farm properties (between 85 and 1,200 acres in size), the range of cash rents the university receives will be between \$211 and \$363 per acre. The average will be \$314 per cropland acre. The university will manage a "price-spike" review as part of our endowment farms lease process to respond to dramatic shifts in production or agricultural commodity price changes.

Attached is an editorial on this subject by the Champaign-Urbana News-Gazette.

Good Start to Farm Lease Policy

Monday February 25, 2008

A new University of Illinois policy for awarding its farmland leases on a competitive basis seems to have started on the right foot.

Although many people had voiced misgivings about it, a new University of Illinois policy on endowment farm leases appears to be a success.

Not only did many longtime farm operators retain their leases, but also the university's agricultural programs will be enriched by nearly a million additional dollars because of a competitive bidding process that UI trustees adopted in 2006

That's what university officials had predicted would happen.

The UI has 30 endowment farms – properties in different parts of the state and of varying sizes that have been donated to the university. New leases on 16 of the properties have been awarded this year and 12 went to the same people who farmed the land last year. Concerns had been voiced that longtime operators would be pushed out of the leases and that farmers less concerned about good agricultural stewardship would succeed them. That doesn't appear to have happened, thanks to a process that allowed incumbent operators to exercise a right of first refusal option. Not only were farmers' cash rent bids considered; so were their experience, financial viability and reputation.

Because of the recent surge in commodity prices, this may have been a providential year for the UI to begin its competitive farmland lease policy. In the future, when crop prices surely will decline, there may not be as much interest in bidding on the leases, and bid prices may not be as strong. The lease policy bears watching in future years but at this time it's hard to call it anything but successful.