

Midwest Farmowner

News & Information from First Mid Ag Services

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Consider All Angles When Weighing a Wind Farm Lease

While wind farms have been present in the Midwest for decades, many ag experts believe they will only become more prevalent in the future. First Mid Ag Services has represented landowners across Illinois with involvement in wind farms, so as any increase in wind farms materializes, farm managers can assist landowners with questions and concerns.

First, leases between wind energy companies and landowners are important, long-term agreements that should be approached with caution and respect. We encourage any landowner with this opportunity to seek legal counsel from a lawyer with experience in energy leases.

Several factors should be considered when presented with a wind farm opportunity. Whether you personally feel wind turbines will improve or diminish a farm, they do change the landscape of the countryside. Every landowner must understand how they and their neighbors feel about these changes, especially those who live in the area. Non-

participation by two or three landowners in the area will likely not prevent construction of a wind farm.

Wind lease payment terms get a great deal of attention and are the primary reason landowners participate in wind farm projects. Other important factors to consider include total length of time for the lease agreement, typically 30 to 50 years, who is responsible for real estate taxes on the turbine, what part of the farm is included in the wind energy project before and after construction, and what types of rights are being granted to the wind energy company.



Wind turbines change the landscape of the farm not only for landowners, but also for their neighbors.

Photo by U.S. Department of Agriculture



Photo by U.S. Department of Agriculture

Contact First Mid Ag Services to navigate the details of a wind farm lease agreement.

Construction and deconstruction of wind turbines can be complex, and usually pose the largest issues for landowners. The Illinois Department of Agriculture has worked to establish standards (Agriculture Impact Mitigation Agreements) for wind energy companies to follow.

During construction, soil may likely become compacted, drainage tile damaged, conservation acres removed, and crops destroyed. Most leases address these issues and attempt to correct them with financial assistance. When it comes to drainage tile repairs particularly, landowners should be aware of who the lease tasks with completing those repairs.

Turbine deconstruction is another important part of the lease. In First Mid's experience, energy companies have escrowed money or been bonded for purposes of removing turbines at project end-of-life or following bankruptcy. This eliminates risk that landowners will have non-operational wind turbines on their property that they are responsible for removing. It is important to ensure a sufficient deconstruction and restoration plan in any lease, regardless of method.

Landowners may reach farm managers at all First Mid Ag Services locations with questions about possible wind farms in their areas or for other assistance. **MF**

Inside: A Look at Outside Influences on 2021 Farmland Prices

Outside Influences and Economy Impact Farmland Values

By David Klein

Strengthening grain prices and tight supplies are driving Midwest farmland values higher this spring, but other outside influences also could have a significant impact this year.

Land values have benefitted from the long, extended period of low interest rates during the last decade, as farmers and investors borrow and repay funds under favorable conditions. In early 2020, signs of some farm mortgage repayment issues were quickly erased with increased ad hoc farm program payments and rising grain prices.

The question is, what if interest rates go higher and other variables remain static? Likely, higher interest rates would reduce the present value of future returns and lead to lower farmland prices. That's because cash investors, unless farmland returns are also increasing, would switch to higher cash returning assets and borrowers would have to pay a higher percentage of the land payment on interest, reducing the amount available for principal.

But farmland is a complex asset that is influenced by a wide and varying set of factors. When and how many of these external influences occur in relation to what is happening in the ag economy can have a significant impact on values. Prices are composed of some basic, fundamental factors: agricultural income, non-ag related income influencers, the growth rate of those factors and interest rates. With stock market prices at record highs and bond yields at historic lows, investors are paying higher multiples for future anticipated income. This reduces the capitalization rates on those investments, including farmland.

As farmland earnings were showing strength at the end of 2020 and prospects were for higher returns in 2021, we observed a marketplace reaction, driving farmland values higher. The pandemic took the general economy to a near standstill in the first and second



Photo by United Soybean Board

Farmland values are strong headed into the spring, but a number of factors will determine if that strength continues into year-end.

quarters of 2020, creating deflationary pressure concerns. The Federal Reserve has only recently relaxed their goal of keeping inflation levels from exceeding a 2% target. A flat yield curve encourages locking in long-term rates on farmland. If the general economy expands going forward, we may see some price inflationary pressure. The yield curve could steepen, forcing more debt to short-term lengths to keep capitalization rates competitive. Farmland values would fall if interest rates and the cost of capital invested in farmland rise dramatically, but the impact will more likely be lessened as long as the yield curve remains relatively stable. The next two years could be interesting, as farmland prices are rising to near the 2013 peak. With positive ag fundamentals, outside market factors and general market price inflation, we might move to a new high for now. MF

First Mid Farm Managers Help Preserve Legacy

Dale Weber's father purchased a 205-acre farm in 1906 just north of Geneseo, Illinois. He lived there and farmed for many years before selling it to Dale and his wife, Mary Jane, in 1965. Dale grew up on the farm, and preserving its legacy is important to him.

"Dad cleared quite a few acres of oak timber so that there would be more tillable land," says Dale. "We hope to keep it in the family and plan to someday pass the farm on to our daughter and her family. We are proud our farm was designated as an Illinois Centennial Farm."

After Dale finished college, he returned to the farm to operate it for a number of years. In 1967, Dale, Mary Jane and their daughter, Faye, left the farm and headed to Iowa State University so he could pursue a career in higher education. Now a retired Oregon State University animal sciences professor, Dale and Mary Jane live almost 2,000 miles away.

"It is important that we have another party manage our property. It gives us peace of mind knowing that our manager is looking after our interests," he says.

First Mid Ag Services farm manager Casey Watson based in Peoria manages the farm. "The farm has a lot going on, and Dale is the type of landowner who wants to preserve his buildings and really values taking care of the farm as a high priority. He always emphasizes his appreciation for me letting him know what is happening on the farm and with the tenant."

In addition to some tillable land, the farm is enrolled in the Conservation Reserve Program (CRP) and has alfalfa and pasture that the tenant uses for cattle. First Mid farm managers have assisted with some ditch work on the farm to improve drainage and have plans to seed a pollinator plot in one of the CRP fields during the current renewal period.

First Mid Offers Tips for Handling Solar Project Solicitations

While the rush on solar project solicitations in Illinois has slowed, it still exists, and farmland owners should be prepared to manage them. Few projects have been constructed so far but are expected to increase dramatically in the next two years. The Federal Investment Tax Credit encourages projects to be constructed and operational by December 31, 2023.

Although the tax credit significantly decreases after that date, it is unknown what the new Administration will do with it. As solar project solicitations come about in 2021, it is important to understand how to react. Here are a few tips First Mid has learned during the last five years:

- **Understand revenue streams.** Solar company revenue streams come from the sale of power produced. Now that a new market for carbon credits is developing, land used for solar could benefit greatly. Ensure your lease spells out who benefits from new revenue streams over the 30-plus-year lease period.
- **Understand the AIMA.** The Agricultural Impact Mitigation Agreement, written by the Illinois Department of Agriculture, sets minimum standards to protect the land's agricultural properties and purposes. Read the agreement and understand the minimum standards. You may require more strict standards in a particular lease. Solar projects, in comparison to wind projects, can be easier to decommission because everything can be removed at lease conclusion, although solar construction may be more land intrusive.
- **Set minimums.** With today's solar power technology, it takes approximately 6-7 acres to generate one megawatt of power. If you sign up 80 acres, that is potentially a 10- megawatt project with some



Photo by U.S. Department of Agriculture

Work with First Mid Ag Services to successfully manage any solar project solicitations.

buffer area. Width of buffer areas differ by county. But what happens when the technology changes and solar panels become more efficient? Either the solar company will generate more power and revenue from your 80 acres while you are locked into a long-term fixed rent or they will downsize the project and lease fewer acres to generate the same 10 megawatts. Either option sounds negative for the landowner.

- **Get as much money up front as you can.** While the large operational rent figures will certainly get the most attention, understand that many projects never make it to construction. Pay just as close attention to rent during the development period when all designs, studies and permits takes place. The development period typically is shorter for solar projects than for wind projects but can still last several years. Get compensated for your time and your attorney's time negotiating and reviewing agreements.
- **ALWAYS consult with an attorney before signing anything.**

First Mid farm managers can assist clients navigating these opportunities and making sure you get good legal advice. If you have a general question, please contact Craig Thompson in the Bloomington office at 309-665-0048 or crthompson@firstmid.com. MF

Craig Thompson recently received **First Mid's 2020 Chairman's Award for Excellence** for his exceptional contributions during the past year. Thompson was recognized for consistently demonstrating First Mid's core values in his work. The award is the company's most prestigious. Individuals are nominated by their peers and selected by the executive committee.

And while the house no longer stands, many cattle buildings and one big barn are the centerpiece of the farm. "Our 'centennial' barn was built in 1917," says Dale. "There were issues with the foundation that required major work. The repairs have now been completed but not until significant efforts were made by our managers, first Doug Fehr and now Casey Watson. Much time was spent to get reliable, affordable bids and their efforts saved us many dollars."

Dale has been pleased with his association with First Mid Ag Services for about 40 years, noting good relationships with managers are vital for landowners. Friendships develop after time. "We try to keep the tenant, farm manager and ourselves in the loop. We avoid making decisions regarding the farm without the First Mid manager being included in the process," he says. "Our tax preparers appreciate the completeness and clarity of their annual farm financial reports." MF



First Mid Ag Services helped the landowner preserve their circa 1917 barn considered the centerpiece of the family farm.



Photo by United Soybean Board

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Inside This Issue...

- Learn How to Manage Solar and Wind Project Solicitations
- Watch Outside Influence Impact on 2021 Farmland Values
- See How First Mid Ag Services Helps Preserve Farm Legacy



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