

# A Message From Union Bank's Ag Loan Department

Greetings! Here it is mid-July 2005 and already time for our mid-year newsletter. We had an excellent renewal season. Thanks to all of you, our valued customers, the busy first and second quarter months were enjoyable.

Our summer newsletter stacks up as follows:

We have a very interesting and informative article on the hot topic of Water Rights, written by Chuck Keeney, Assistant Vice President of our Kearney office. The article also includes his own informed opinion on the potential impact.

Ethanol is another hot topic, chosen for this newsletter because of the increasing impact on the state of Nebraska and the United States as a whole. We thought some basic information, facts, and tips would be interesting.

You also will not want to miss the information on the Health Savings Account. The HSA is geared toward self-employed business owners paying high deductibles for health insurance. Because of that, we felt there would be interest from many of you. HSA's were created to store funds allocated for health care costs until those funds are needed. They offer many benefits to the account owner.

As always, we are beginning to schedule farm visits for those of you with operating lines of credit. We really enjoy the personal farm visits and hope to see many of you this year.

We have made several enhancements to the Agriculture Loan Division on the website and would love to have you check it out at [www.ubt.com](http://www.ubt.com). While you are there be sure to let us know if there are any suggestions you have for improvement to the newsletter!



July 2005

## Limited Irrigation Water: No Problem?

by Chuck Keeney,  
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### HISTORY

The ground water located under a good portion of Nebraska has been and continues to be a tremendous resource for Nebraska and its agricultural producers. Having always had adequate ground water in most of the state for at least stock and domestic wells, most Nebraskans take this resource for granted. However, this resource is limited and the state's political process has been and continues to be involved in determining how and what ways this resource will be utilized by property owners and the citizens of the state.

In the past, state law has held that water underneath the land is owned by the landowner. Surface water has been viewed differently and has been controlled by the state. The inner play between ground water and surface water and conflicts between Nebraska and other states has resulted in lawsuits and legislation so that the state now has a greater say in how ground water is and will be used.

Moratoriums on irrigation wells and the amount of water that can be pumped from irrigation wells in various NRD's have a history that goes back over 20 years. Such allocations and restrictions were applied in the Upper

Republican Basin a number of years ago, and producers in that area have been dealing with 14-15" of allocated water to support irrigated agriculture for a long time.

These allocations are generally based on a certain number of inches per acre on a 3-5 year allocation, meaning that individual producers could over-use water in one year and under use or not pump in another year as needed. My experience with producers in these areas is that improvements in pivot delivery systems and minimizing tillage has allowed producers, even in the sandier soils in Western Nebraska, to raise irrigated corn on an annual basis within the water allocations.

### FARMING PRACTICES

Additional factors besides the amount of water available have and continue to affect irrigated and non-irrigated agriculture across the state of Nebraska. Improvements in plant genetics, agricultural chemicals and the costs of energy have also played a hand in how farming has changed on agricultural acres in the last 20 years. Increasingly it is typical for even irrigated acres to be minimally tilled, relying on seed genetics and chemicals to save both costs of production and water in the soil.

In addition to plant genetics and chemicals, increased use of center pivots as a method for delivering water to irrigated land is becoming increasingly important. The newer generation of pivots with low pressure and drop nozzle technology is such that full pivot quarters of ground are being developed with 600-800 gallon per minute capacity wells supporting those pivots. Historically, under a gravity irrigation method, 800-1,000 gallons per minute from a well was deemed just adequate to supply 80 acres of gravity irrigated ground.

The trend in agriculture, as in most business, continues to be decreasing margins and the corresponding increase in volume that is necessary for success. Minimizing trips through the field and relying on genetics and chemicals has allowed producers to grow their gross business receipts and help reduce costs. Converting gravity irrigated land to center pivots has likewise helped individual producers simplify their irrigation thereby being able to irrigate more acres with less manpower and water. The inner play between limited labor and increasing costs for fuel and equipment have converged such that well managed, well capitalized agricultural businesses are able to adjust to reduced supplies of irrigation water in stride, without major upheavals in the industry.

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## Limited Irrigation Water: No Problem? *cont'd from page 1*



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The most obvious implication to these improving technologies in genetics and farm chemicals and the increasing cost of energy and the decreasing supply of irrigation water is the use of center pivot systems. Land that does not lend itself to center pivot irrigation because of the shape of the land has and will continue to be considerably less attractive than land that is suitable for the pivot. Land that is not suitable for a center pivot system and faced with decreasing supplies of irrigation water will either become partially irrigated, irrigated on a rotated basis or the ground water allocated to those gravity irrigated farms will be available for sale/transfer to other individuals and other land.

Although this market has not yet developed, it appears to be an obvious next step in how farmers will deal with the limited supply of water. In the immediate future, only the efficient pivot irrigation systems appear to be available to supply land with the limited amount of water that is or will be allocated.

### RISKS/LAND VALUE

What will become of the value of the farm that at one time had pivot potential but does not now due to a moratorium or a farm that because of its shape or size cannot be modified from gravity to pivot irrigation? It would stand to reason that such land would be of considerably less value to an agricultural producer. In some cases, that appears to be true. However, farming methods and improvements in plant technology may support the value of these properties at a higher level than one may have thought.

Producers are indicating that their profitability on a per acre basis on dry land acres compare quite favorably to the profitability on their irrigated acres when normal or better than average rainfall is received. In fact, increasingly with reduced or no tillage and with certain varieties of seed, excellent dry land profitability is being achieved even with than less than average rainfall.

A top quality quarter section of ground that one time had pivot potential may not be as valuable as it had been in the past due to a well moratorium, however the demand for good quality dry land ground is strong and supporting the price accordingly. On the other hand, the market is reflecting a difference in the value of irrigated ground for acres that are not suitable for pivot irrigation versus acres that are suitable. Small and odd shaped irrigated tracts are selling in the market at a discount versus gravity irrigated ground that can be converted to pivots and versus land that is already set up with a pivot irrigation system.

### SUMMARY

Individual farms and individual land owners may be adversely affected by well drilling moratoriums and reducing allocations of irrigation water per acre. I believe, however, that by simply adjusting irrigation water delivery method from gravity to center pivot technology most producers will take restrictions on ground water availability in stride. Most agricultural producers in the state have been moving to center pivot technology and will continue to do so because other labor and economic reasons before reduced water supplies are factored in.

Possibly the biggest risk to the individual producers, associated with reduced water supply is whether they have the land resource and/or the capital available to convert to pivot irrigation.

## Why More and More Engines Are Running On Ethanol

Ethanol is a high octane liquid fuel produced by the fermentation of plant sugars. In the United States, ethanol is usually made from corn, sorghum and other grain products. Ethanol is also known as ethyl alcohol and is a clear, colorless, flammable oxygenated fuel. When combined with ordinary unleaded gasoline, ethanol increases the oxygen content of the fuel which helps it to burn cleaner and cooler. The use of ethanol blends up to and including 10% are the most common, however, many vehicles can operate on blends of up to 85% ethanol.

E-10 Unleaded is a blend of 10% ethanol and 90% unleaded gasoline. This blend is the most common across the US and represents nearly 50% of the gasoline sold in Nebraska. Every automaker in the world approves the use of E-10. This fuel is even

recommended by some due to the environmental positive benefits.

E-85 is a blend of 85% ethanol and 15% ordinary gasoline. This fuel dramatically reduces the need for imported oil. Automakers are rapidly increasing the number of vehicles that can run on E85. The Nebraska Ethanol Board estimates that there are more than 22,000 vehicles that can burn E85 in Nebraska. Plans are under way to have as many as 30 E85 public refueling stations in the state by the end of 2005 and an estimated annual sale of 3 million gallons of the fuel.

Ethanol production in the US has increased at the rapid rate of nearly 20 percent per year. In Nebraska, ethanol production increased from about 500 million gallons in 1999 to over 700 million gallons in 2004. The recent plant

construction and expansion suggest that it can be expected to increase by at least another 40 percent within the next year or two. The increase can be attributed to ethanol producer tax credits, US Department of Agriculture incentive programs, and increased market demand.

Ethanol offers a number of benefits to Nebraska and America. These benefits include cleaner air, reduced dependency on foreign oil and increased value for agriculture to name a few.

### Sources:

Nebraska Ethanol Board  
Cornhusker Economics Cooperative  
Extension Dept. of Agriculture UNL  
Nebraska Department of  
Environmental Quality

## Union Bank Introduces Health Savings Accounts

The health care industry has seen a dramatic increase in health insurance premiums for the past several years. This increase has been especially difficult for small employers and self-insured individuals. To combat this rise, alternatives have been developed that are designed to assist in the funding of these higher insurance costs. One option now available to small employers and the self-insured is the Health Savings Account.

The Health Savings Account, or HSA, was signed into law by President Bush on 12/8/2003. You must currently be participating in a qualifying high deductible health plan (HDHP) to be eligible for the HSA. The minimum deductible for this plan must be at least \$1,000 for an individual or \$2,000 for a family. This insurance must be in place prior to opening your HSA. The HSA is used to store funds that may be used to assist you in reaching your higher deductible.

The primary insurance benefit to opening an HSA is that it will significantly

lower your premium costs. You will be responsible for meeting a higher deductible; however, the funds that you place within the HSA can assist you in paying for your qualified medical expenses. Funds may be deposited by you, your employer, or any other person that wishes to contribute to your account. You may deduct these contributions from your taxes (unless they are made by your employer-then they are tax deductible for them), the earnings from the funds grow tax-free, and any withdrawals made for qualified medical expenses will not be taxed.

The account may also work as an additional retirement savings because unused funds are able to rollover from year to year and you are the owner of the account. This means that you are able to keep the funds, even if you change employers.

How do you qualify? The IRS has established certain guidelines to

determine your eligibility. To open a HSA, you must meet the following criteria:

- You must be enrolled in a qualifying high-deductible health plan.
- You cannot be enrolled in Medicare
- You cannot be claimed as a dependent on someone else's tax return.

You cannot be covered under an employer sponsored health care plan unless it is a qualifying high deductible health plan.

If you have any questions or would like more information on HSAs, please contact Union Bank at (402) 323-1777 or toll-free at (800) 297-2837. Union Agency, our affiliated Insurance provider, can demonstrate your savings and answer any questions that you may have regarding HDHPs. Please contact Union Agency at (402) 483-4527 for any questions regarding insurance.