

Case Study

Idaho Farm/Ranch Combo

In November 2005, Scythe & Spade (S&S) was approached to perform a Due Diligence study by a group of investors who were considering the purchase of a 185,000-acre farm and ranch combination. Names have been withheld to maintain confidentiality.

- **Challenge:** The Ranch has 5,600 deeded acres of which 1600 are sprinkle irrigated through surface and ground water, with another 750 acres sub-irrigated and ditch irrigated with spring water.

The balance consists of 180,000 leased grazing acres controlled by the Forest Service, the Bureau of Land Management (BLM) and the Idaho Department of Lands. There are 12 grazing allotments in all, with various stocking rates and dates.

The initial contact was from one of four partners who had been advised that the property was “as neat as a pin” and ready to be closed. By the end of the feasibility period, we had identified several issues requiring further attention prior to closing. The following is a summary of those issues and our current and ongoing efforts to address them.

- **Results:** S&S chose to become involved and conducted a Due Diligence study, analyzing all resources, operations and history, and found the following:
 1. The legal description of the subject property completed as part of a boundary survey included BLM lands erroneously listed as deeded land. There were a total of 640 acres included in the purchase price that the seller didn't have the rights to sell, and which would have effectively increased the sales price and title insurance. This find saved our clients \$640,000 in acquisition costs and a potential future lawsuit with the title company.
 2. Using FARMBASE™ our proprietary geographic information database and (GIS) mapping services, we were able to identify five separate instances whereby the seller was encroaching on neighbors, namely the BLM. Additionally, there were several instances where the title company had included the incorrect legal description, which was also discovered



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through FARMBASE™. S&S addressed and/or corrected these issues which resulted in a cost savings and improved on the survey quality and title insurance. A Special Land Use Permit was drafted and presented to the BLM. Negotiations are underway with other encroaching neighbors to resolve the balance of those issues.

3. The locations of two primary improvements, a home and a set of working facilities, were not situated entirely on lands owned by the seller. We have resolved this issue with another Special Land Use Permit.
4. Ten days prior to the close of escrow (COE), the buyer gave notice that they didn't have access to all of the funds required to close and needed an extension. A two-month extension was successfully negotiated in spite of the seller's insistence that they close on time due to pending 1031 exchanges they had established. The identification of these issues and need to resolve them was of some assistance in negotiating the extension.
5. The seller had entered into an agreement with the Foundation for North American Wild Sheep (FNAWS) to abandon several thousand sheep AUMs that extended beyond the COE but in effect precluded the new ownership from fully utilizing five of the 12 grazing allotments. Initially the seller was unwilling to pro-rate the proceeds resulting from that agreement. However, S&S successfully negotiated a pro-ration, resulting in a \$27,000 benefit to the buyer. We have successfully converted the bulk of those abandoned sheep AUMs to cow AUMs for future utilization, on behalf of this client.
6. S&S analyzed energy costs and the irrigation systems and by the end of the first year of operation, realized a significant savings in energy costs. S&S worked with the Power Company and several outside consultants to further improve irrigation delivery capabilities and efficiencies. Through a cost local share program, we were able to reclaim 50% of the capital investment required to achieve the energy cost savings. By re-nozzling and re-regulating sprinklers and redesigning the wells, we have reduced pressure requirements and increased water production while reducing overall power costs.
7. Several corrals contained many years' of stockpiled manure, threatening natural waterways and risking an environmental claim. S&S established a nutrient management program in order to avoid certain liabilities and improve soil fertility, removed and spread the manure on farmed fields. Preliminary soil tests and yields indicate a positive result from this effort.
8. Faced with a delayed COE, S&S was not afforded the opportunity to lease the property to a tenant operator and elected to operate the Property themselves... Through industry relationships, 1,400 stockers and 500 mother cows were contracted for the spring and summer seasons, and 500 mother cows were



sourced, summered and calved through the winter. In combination with custom haying several fields, income in year one was 4x the rents offered initially. To date, carrying capacities have doubled and hay production has stabilized at nearly 1,000 tons annually as part of a rotational crop improvement plan.

9. S&S developed and improved existing water delivery systems to take advantage of early surface water and put it to more beneficial use on lands that historically had been farmed, but recently had been idle and fallow thereby increasing the irrigated acreage by 400 acres.
 10. As part of the water rights adjudication process, S&S using FARMBASE, identified, analyzed, mapped and completed the administrative filings on 73 separate water rights, one at risk of being lost was protected and the priority rights of yet another was firmed up.
- **Conclusion:** This ranch was ultimately purchased with full knowledge of its Strengths, Weaknesses, Opportunities and Threats. A business plan was developed and implemented and those SWOT issues identified and addressed. Today the ranch is generating a 5% ROI and its resale value has more than doubled.

