

Question: What about a multiplier? 1200 an acre today sounds like a lot of money but in 20 years it's worth a lot less. What is the average rate for the multiplier? What should a land owner ask for?

Making sure a solar lease agreement works for your farm is critically important as most solar lease agreements are long-term, often ranging 20 to 30 years. In addition, unlike other energy leases (e.g. wind, oil & gas) a solar lease will likely prohibit other forms of use on your property, limiting your income on the property to the solar lease payment.

Every situation is unique and it is difficult to say exactly what a landowner should ask for as a payment. For example, are you interested in a solar lease for economic return, or are you motivated by the environmental benefits? Also, not all cropland is created equal. Some factors affecting the value of your cropland such as the size of your farm, location of farm operations (storage building and grain storage), soil quality, fertility levels, drainage tile, irrigation systems should be considered and may justify a higher cash rent.

Identifying an average rate to use as a multiplier will help you estimate how competitive your lease agreement will be in future years. According to the USDA, Economic Research Service, the gross cash rents for Ohio cropland between 1967 and 1994 increased by an average of 5.4 percent annually. Similarly, cash rent values in Western Ohio from 2009 to 2016 show an average annual percent change of 4.5 percent for top cropland, 4.4 percent for average cropland, and 5.1 percent for poor cropland (Table 1). Based on the historical cash rent values in Ohio, it appears a conservative multiplier is between 4.5 and 5.5 percent annually.

Year	Top	% Change	Average	% Change	Poor	% Change
2009	\$180	-	\$141	-	\$102	-
2010	\$193	7.2	\$151	7.1	\$116	13.7
2011	\$229	18.7	\$179	18.5	\$140	20.7
2012	\$256	11.8	\$197	10.1	\$144	2.9
2013	\$275	7.4	\$211	7.1	\$156	8.3
2014	\$281	2.2	\$213	0.9	\$159	1.9
2015	\$254	-9.6	\$200	-6.1	\$153	-3.8
2016	\$239	-5.9	\$187	-6.5	\$141	-7.8

Source: Barry Ward (ward.8@osu.edu) Leader Production Business Management, OSU Extension, Department of Agricultural, Environmental, and Development Economics (AEDE), The Ohio State University. Available at: <http://ohioline.osu.edu/factsheet/aede-15-16>

In addition to estimating how competitive your lease agreement will be in future years (based on inflation of cash rent for cropland), it is critical you understand the property tax implications from a lease agreement. Property that is currently taxed under the Current Agricultural Use Value (CAUV) program as agricultural land may become ineligible for this type of valuation if the property is converted to commercial use as a solar farm. Taking land out of CAUV designation may result in conversion penalties and additional taxes owed. If you are responsible for paying any additional property taxes, this expense will lower the net income from your lease agreement and should be carefully considered in the evaluation of your project.