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*REPORT TO THE CONGRESS*

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Improvements Needed In  
Leasing Federal Lands For  
Agricultural Purposes B-173324

Corps of Engineers (Civil Functions)  
Department of the Army

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

OCT. 1, 1971

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-173324

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the improvements needed in leasing Federal lands for agricultural purposes by the Corps of Engineers (Civil Functions), Department of the Army.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretaries of Defense, Agriculture, the Interior, and the Army; and the Chairman of the Board of Directors of the Tennessee Valley Authority.

A handwritten signature in cursive script that reads "James B. Axtell".

Comptroller General  
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

Land acquired by the Corps of Engineers for reservoirs or similar project purposes may be leased to former owners for agricultural use. The General Accounting Office (GAO) made a review of the policies and practices followed by the Corps in the leasing of such lands.

Background

Essentially, the Corps has used two basic types of leasing policies.

Land acquired before 1956 is leased for extended periods without any restrictions against the production of price-supported crops.

Land acquired after 1956 is leased without any crop restrictions for 5 years after the completion of the project. Thereafter, the land is leased with a restriction against price-supported crops. Under a Presidential memorandum effective July 20, 1956, the production of price-supported crops was generally prohibited on Federal lands.

Public Law 86-423, approved April 9, 1960, however, permitted former owners who leased agricultural land acquired by the Government to continue to produce price-supported crops on the land and to be eligible for payments under the price-support and related programs. (See p. 5.)

As of June 30, 1970, the Corps had

--2,032 leases of about 272,000 acres of land without restrictions and

--2,382 leases of about 260,000 acres with restrictions against price-supported crops.

Fiscal year 1970 rentals under these leases were about \$1,095,800 and \$613,850, respectively. (See p. 6.)

OCT. 1, 1971

## FINDINGS AND CONCLUSIONS

### Inadequate rentals

GAO's review of 740 unrestricted leases of Federal land at 12 reservoirs showed that the Corps' negotiated rentals with the former owners or tenants did not provide a rate of return to the Government consistent with its cost of the land.

Rentals generally were less than those for comparable privately leased lands in the area. The lease appraisals contained only general statements in explanation of the differences.

Of the 740 leases reviewed, 365 were for land at seven reservoirs under construction or completed since 1956. GAO estimated that the rentals under these leases resulted in a loss of revenue in 1 fiscal year of about \$254,000, of which 75 percent would have been payable to the State in which the land was located. (See p. 7.)

GAO's review of 375 unrestricted leases at five older reservoirs where land was acquired prior to the 1956 memorandum also showed that the Corps' rentals did not provide a rate of return to the Government consistent with its cost of the land.

Of the 375 lessees, 284 participated in the price-support and acreage-diversion programs. Department of Agriculture payments to these lessees in 1 crop year of about \$302,000 exceeded the annual rentals for the lands by about \$148,000. (See p. 10.)

### Need to reevaluate lease agreements at older reservoirs

At the older reservoirs, the Corps leased land to former owners or their tenants for extended periods, in some instances up to 30 years, without prohibiting the production of price-support crops.

About 121 of the leased properties were being operated by individuals other than the former owners or tenants. Department of Agriculture payments on these leased properties of about \$156,000 in 1 crop year exceeded the annual rentals by about \$88,000.

Such action is not consistent with the Department of Agriculture's efforts to control surpluses of certain crops. (See p. 13.)

Also this Corps leasing action is contrary to the intent of Public Law 86-423, which states that only former owners of land acquired by the Government who continuously occupy such lands under leases should retain their price-support options. (See p. 14.)

#### RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that the Secretary of the Army require the Chief of Engineers to:

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- Establish a rental rate policy for the leasing of Federal lands for agricultural purposes, which provides for (1) suitable documentation in support of appraisal rental values for all leases, including the type of adjustments considered appropriate in establishing such values, (2) periodic study and adjustment of rental rates to reflect changes in the open market, and (3) consideration of a specific rate of return as a standard for evaluating the reasonableness of appraised rental values. (See p. 11.)
- Reevaluate the Corps' current policies and practices for leasing Federal lands for agricultural purposes and consider the feasibility of establishing (1) guidelines to ensure appropriate consideration of such matters as the Corps' commitment to former owners, the extent to which former owners continue to operate the land, and the potential impact upon the commodity adjustment programs of the Department of Agriculture and (2) procedures which will provide for a periodic reevaluation of lease agreements. (See p. 15.)

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

The Army advised GAO that the Corps of Engineers would analyze its current policies and practices for leasing project lands for agricultural purposes and take GAO's recommendations into consideration.

The Army considered that the Corps' present system of rental rate determination was adequate. It stated, however, that, because there were indications that price-support payments were not properly reflected in rental appraisals, this aspect of the appraisal program would be investigated and action taken to ensure that future appraisals reflect changes in the economy and all other factors affecting rental values, such as support payments. (See pp. 11 and 12.)

The Army advised GAO that the use of a specific rate of return for determining rentals was contrary to the reaction of individuals in the open market and could be used only as a rough approximation of the desirable economic return. GAO agrees with this concept.

However, since most of the agricultural leases of Federal land are primarily low rental value leases for which the appraisal is not required to include market data, GAO believes that a specific rate of return, if properly developed and periodically adjusted to reflect changes in the private market, could be used as a standard for determining the reasonableness of appraised rental rates. (See p. 12.)

The Army also agreed to reanalyze the current policies and practices concerning the leasing of project land for agricultural purposes at the older reservoirs. (See p. 16.)

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations or suggestions requiring action by the Congress. It is being submitted because of the interest shown by members of Congress in the Department of Agriculture's agricultural commodity adjustment programs to reduce price-depressing surpluses of certain crops and because of the additional income that would result from the establishment of a revised rental policy for leasing land for agricultural purposes.

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ABBREVIATIONS

GAO	General Accounting Office
ASCS	Agricultural Stabilization and Conservation Service
FHA	Farmers Home Administration

D I G E S T

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Rentals generally were less than those for comparable privately leased lands in the area. The lease appraisals contained only general statements in explanation of the differences.

Of the 740 leases reviewed, 365 were for land at seven reservoirs under construction or completed since 1956. GAO estimated that the rentals under these leases resulted in a loss of revenue in 1 fiscal year of about \$254,000, of which 75 percent would have been payable to the State in which the land was located. (See p. 7.)

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Such action is not consistent with the Department of Agriculture's efforts to control surpluses of certain crops. (See p. 13.)

Also this Corps leasing action is contrary to the intent of Public Law 86-423, which states that only former owners of land acquired by the Government who continuously occupy such lands under leases should retain their price-support options. (See p. 14.)

#### RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that the Secretary of the Army require the Chief of Engineers to:

- Establish a rental rate policy for the leasing of Federal lands for agricultural purposes, which provides for (1) suitable documentation in support of appraisal rental values for all leases, including the type of adjustments considered appropriate in establishing such values, (2) periodic study and adjustment of rental rates to reflect changes in the open market, and (3) consideration of a specific rate of return as a standard for evaluating the reasonableness of appraised rental values. (See p. 11.)
- Reevaluate the Corps' current policies and practices for leasing Federal lands for agricultural purposes and consider the feasibility of establishing (1) guidelines to ensure appropriate consideration of such matters as the Corps' commitment to former owners, the extent to which former owners continue to operate the land, and the potential impact upon the commodity adjustment programs of the Department of Agriculture and (2) procedures which will provide for a periodic reevaluation of lease agreements. (See p. 15.)

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

The Army advised GAO that the Corps of Engineers would analyze its current policies and practices for leasing project lands for agricultural purposes and take GAO's recommendations into consideration.

The Army considered that the Corps' present system of rental rate determination was adequate. It stated, however, that, because there were indications that price-support payments were not properly reflected in rental appraisals, this aspect of the appraisal program would be investigated and action taken to ensure that future appraisals reflect changes in the economy and all other factors affecting rental values, such as support payments. (See pp. 11 and 12.)

The Army advised GAO that the use of a specific rate of return for determining rentals was contrary to the reaction of individuals in the open market and could be used only as a rough approximation of the desirable economic return. GAO agrees with this concept.

However, since most of the agricultural leases of Federal land are primarily low rental value leases for which the appraisal is not required to include market data, GAO believes that a specific rate of return, if properly developed and periodically adjusted to reflect changes in the private market, could be used as a standard for determining the reasonableness of appraised rental rates. (See p. 12.)

The Army also agreed to reanalyze the current policies and practices concerning the leasing of project land for agricultural purposes at the older reservoirs. (See p. 16.)

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## CHAPTER 1

### INTRODUCTION AND SCOPE OF REVIEW

The Corps of Engineers, Department of the Army, plans, constructs, and operates water resources projects authorized by the Congress for navigation; flood control; and related purposes, such as irrigation, hydroelectric power development, and recreation. In acquiring land for such projects, the Corps usually acquires fee title (complete ownership) to all land 300 feet horizontally above the highest level that could be flooded by the project's retention of flood water (flood control pool).

Land acquired for Federal projects which is not flooded or required immediately for project purposes and which is suitable for agricultural or grazing purposes may be leased pursuant to section 2667 of Title 10, United States Code.

A Presidential memorandum effective July 20, 1956, generally prohibited the production of price-supported crops-- a Department of Agriculture program which guarantees a stabilized price for the production of specified farm commodities-- on Federal lands. The objective of the memorandum was to make the leasing of Federal land for agricultural purposes consistent with the efforts of the Department of Agriculture under the agricultural commodity adjustment programs to reduce price-depressing surpluses of certain crops, to strengthen prices, and to bring agricultural production into line with markets.

Public Law 86-423, approved April 9, 1960, however, had the effect of modifying the Presidential memorandum to permit former owners who occupy land acquired by the Federal Government to continue to produce price-supported crops on the land until it was needed for project purposes. Thus the former owner lessees of such lands leased without a restriction against producing price-supported crops are eligible for payments under the price-support and related programs.

For projects where land was acquired prior to the 1956 Presidential memorandum, the Corps leases project land to the former owners without a restriction (unrestricted lease) against producing price-supported crops as long as the former owner or tenant desires to continue leasing. For projects where land was acquired subsequent to 1956, the Corps leases land to the former owners without a restriction against producing price-supported crops for a period not to exceed 5 years after the project is completed. Thereafter, any land not needed for project purposes is leased subject to a restriction against producing such crops (restricted lease).

Corps regulations require that appraisals be made to establish the fair rental value of Federal lands in accordance with acceptable appraisal standards applicable to the particular type of property. The appraisals are required to show essential facts, such as the present market value of fee title to the property; the fair annual rental value of the property; and any direct damage to growing crops, standing timber, or improvements to be removed or destroyed. The regulation states that the preparation of time-consuming and lengthy appraisal reports is to be kept to a minimum and that a brief summary of the essential facts is all that is required to support the rental value of land leased for less than \$2,000 a year.

As of June 30, 1970, 2,032 unrestricted leases of about 272,000 acres of Federal land permitted the production of price-supported crops on the land and 2,382 restricted leases of about 260,000 acres of Federal land prohibited the production of price-supported crops on the land. Annual rentals under the unrestricted leases amounted to about \$1,095,800--about \$4.02 an acre--and annual rentals under the restricted leases amounted to about \$613,850--about \$2.36 an acre.

Section 701c-3 of Title 33, United States Code, provides that 75 percent of the moneys received and deposited in the Treasury, during a fiscal year from leasing of reservoir land, is to be paid to the State in which the land is located to be used for the benefit of the counties where the leased property is located. This legislation further states that these moneys are to be expended for benefits, such as public schools, public roads, flood control, or drainage benefits.

Our review was directed to the Corps' procedures and practices for establishing rental rates for Federal lands leased for agricultural purposes and to the policy of permitting the production of price-supported crops on such land. The review was conducted at the Office of the Chief of Engineers and at the District Offices located at Kansas City, Missouri; Tulsa, Oklahoma; Memphis, Tennessee; Vicksburg, Mississippi; and at selected county offices of the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture. A listing of Corps of Engineers reservoirs discussed in this report and their locations is shown in appendix IV.

## CHAPTER 2

### INADEQUATE RENTAL RATES ON FEDERAL LANDS

#### LEASED FOR AGRICULTURAL PURPOSES

Our review of rental rates negotiated by the Corps for 740 leases of Federal lands for agricultural purposes at 12 reservoirs--which contained no restrictions on the production of price-supported crops--showed that the rentals negotiated with the former owners or tenants did not provide a fair rate of return on the Government's cost of the land. The rentals generally were less than those for comparable privately leased lands in the area and the lease appraisals for the most part contained only general statements in explanation of the differences.

Of the 740 leases reviewed, 365 were for land at seven reservoirs under construction or completed since the 1956 Presidential memorandum. At these reservoirs the Corps leases land to former owners without crop restriction for a period not to exceed 5 years after completion of the project. The remaining 375 leases reviewed were for land at five reservoirs where land was acquired prior to 1956 and where the growing of price-supported crops by former owners or tenants is permitted for an indefinite period.

For the 365 leases of land reviewed at the seven reservoirs under construction or completed since 1956, we estimated that the low rentals resulted in a loss of rental income of about \$254,000 in fiscal year 1969. In addition, it seems likely that losses are also being incurred under the remaining unrestricted leases located at other reservoirs. Under the present law 75 percent of this amount would have been payable to the State in which the land is located and is to be used for public benefits in the local area of the reservoir; the remaining 25 percent would have been payable to the Federal Government.

Although Corps officials in the Kansas City and Tulsa Districts where these seven reservoirs are located told us that rental rates for comparable privately leased land in the areas were used as a basis for estimating the fair market rental for Federal leased lands, our review showed that the annual rentals for the 365 leases generally were less than rentals for comparable privately leased land in the areas. The appraisals did not, however, contain any details as to how the rentals had been established.

The Corps regulations did not require detailed explanations for 346 of the leases because the appraised rentals

were less than \$2,000 a year. The regulations did require detailed explanations for the remaining 19 leases; however, the appraisals contained no information as to whether any consideration had been given to the fair market value of the land, the eligibility of the land for price-support and acreage-diversion program payments, or to other factors which might have had a bearing on the rentals, such as possible flood damage to the land and damage resulting from Government access to the land.

For the land acquired for these seven reservoirs, the Corps established the acquisition cost of the land, exclusive of improvements, on the basis of capitalizing the estimated annual earnings at rates ranging from 4 to 7 percent. The Corps, however, under the 365 leases, leased about 53,800 acres to the former owners at annual rentals equivalent to 1.7 to 3.4 percent of the established cost of the land.

We estimated that the leasing of lands to the former owners at the low rentals resulted in a loss of revenue to the State and Federal Governments in fiscal year 1969, as shown below.

<u>Reservoir</u>	<u>Number of unrestricted leases</u>	<u>Annual rentals (note a)</u>	<u>GAO- estimated fair annual rentals</u>	<u>Differ- ence</u>
Perry	68	\$ 35,646	\$ 70,600	\$ 34,954
Milford	60	27,246	35,800	8,554
Harry S. Truman	70	65,952	115,500	49,548
Rathbun	53	27,685	53,300	25,615
Robert S. Kerr	66	54,289	160,700	106,411
Webbers Falls	36	14,438	43,600	29,162
John Redmond	<u>12</u>	<u>2,265</u>	<u>2,400</u>	<u>135</u>
Total	<u>365</u>	<u>\$227,521</u>	<u>\$481,900</u>	<u>\$254,379</u>

<sup>a</sup>Of the annual rentals, 75 percent is payable to the State in which the land is located.

Our estimate of the fair annual rental noted above was based on the premises that (1) the fair market value of the land was at least as great as the cost of the land to the Government and (2) a fair rate of return on the value of land that was not subject to flood hazards would be 5 percent<sup>1</sup> and for

<sup>1</sup>At the time of our review, the Forest Service, Department of Agriculture, used a 5-percent rate of return on the fair market value of the land in establishing rentals for agricultural leases.

land subject to such hazards would be 5 percent reduced by a factor computed on the basis of the flooding probability as determined by the Corps. The base rate of 5 percent, however, could vary depending upon what a reasonable rate would be in specific situations.

The following examples further illustrate the inadequacy of the rentals.

1. Perry Reservoir--The Corps' appraisal report for the 252 acres of land acquired at the Perry Reservoir in 1966 showed that its estimated value, exclusive of improvements, was determined on the basis of a 4.3-percent rate of return on the value of the land, or a net income of about \$2,600. ASCS county records showed that the price-support payments on this land for the 1969 crop year amounted to \$2,188. This same acreage was being leased to the former owner in 1969 on the basis of an appraised rental value of \$1,082, or an annual rental of about \$1,100.

Supporting data for the appraised rental value showed that privately owned cropland in the area was being leased at rates ranging from \$8 to \$31 an acre. The highest estimated annual rental appraisal for Corps-owned land in the area was set at only \$5 an acre. The appraiser's report did not specify the fair market value of the land or explain why the appraised rental value used was so much lower.

On the basis of the premises cited above, the fair rental value of the land should have been about \$2,800.

2. Robert S. Kerr Lock and Dam--The Corps' appraisal report used in the acquisition of 190 acres at the Robert S. Kerr Reservoir in 1965 showed that the estimated value, exclusive of improvements, was determined on the basis of a 6-percent rate of return on the value of the land or a net income of about \$2,883. ASCS county records showed that the price-support payments on the land for the 1969 crop year amounted to \$1,754. This same property was leased to the former owner for an annual rental of \$940.

The rental paid for the lease of this land in 1969 was based on an appraised annual rental value in 1965 of about \$5 an acre. The appraisal contained a statement that \$3 to \$10 an acre was applicable in estimating annual rentals for croplands in the area but did not cite the fair market value of the Federal land or contain any explanation as to why the appraised rental value was so low.

On the basis of the premises cited above, the fair rental value of the land should have been about \$2,750 a year.



Our review of the 375 unrestricted leases at the five older reservoirs where land was acquired prior to the 1956 Presidential memorandum also showed that the Corps' rentals provided less than a fair rate of return on the acquisition cost to the Government. We noted that 284 of the lessees participated in the price-support and acreage-diversion programs and that payments to the lessees in crop year 1969 under these programs were about \$148,000 more than the annual rentals for these lands, as shown below.

<u>Reservoir and year completed</u>	<u>Number of leased acres in ASCS programs</u>	<u>Annual rental of leased land in ASCS programs</u>	<u>ASCS payments on leased land in 1969 crop year</u>
Kanopolis--1948	3,629	\$ 15,676	\$ 11,866
Harlan County--1952	4,749	19,012	23,950
Wappapello--1941	18,531	43,486	57,415
Enid--1952	7,727	38,875	75,661
Grenada--1954	<u>9,823</u>	<u>36,970</u>	<u>133,577</u>
Total	<u>43,459</u>	<u>\$154,019</u>	<u>\$302,469</u>

The excess of price-support and acreage-diversion payments over the rentals for the leased land indicated to us that the rentals for the leased lands should have been increased. We have since noted that the Corps has taken some action in this direction by increasing the rentals in 1970 for the leased Federal lands at the Grenada Reservoir to about twice the amount shown earlier for 1969.

To determine the reasonableness of the rentals established by the Corps, we requested that appraisers of the Farmers Home Administration (FHA), Department of Agriculture, estimate a fair annual rental for selected tracts of land leased at the Wappapello Reservoir. The annual rentals estimated by FHA were significantly higher than the Corps' annual rentals, as shown below.

<u>Tract</u>	<u>Acres leased</u>	<u>Corps' annual rental (note a)</u>	<u>FHA-estimated annual rental</u>	<u>Excess of FHA-estimated annual rental over Corps' annual rental</u>
A	111.2	\$ 490	\$1,237	\$ 747
B	67.8	360	968	608
C	149.3	440	846	406
D	80.0	200	453	253
E	10.2	<u>60</u>	<u>149</u>	<u>89</u>
Total		<u>\$1,550</u>	<u>\$3,653</u>	<u>\$2,103</u>

<sup>a</sup>Of the annual rentals, 75 percent is payable to the State in which the land is located.

## CONCLUSIONS

The rental income available to the Federal and State Governments from the leasing of lands at the seven reservoirs would have been greater if the rentals had been established on the basis of providing a fair rate of return on the value of the land which, we believe, should have been about 5 percent of the cost of acquiring the land.

Most of the leases on the lands acquired since 1956 provided for rentals of less than \$2,000 a year and, under the Corps' regulations, only a brief summary of the facts is required to support such appraised rental values. We recognize that the cost of obtaining complete, detailed appraisals for such leases may be prohibitive. Because of the large number of such leases and the cumulative amounts involved, however, the Corps should provide additional criteria for the guidance of Corps officials responsible for the leasing of such Federal lands. Such established criteria should be designed to ensure a reasonable return on Federal lands.

For the lands leased at the older reservoirs, we believe that the Corps should periodically reevaluate the adequacy of the rates and attempt to establish rentals more equitable to the Government. We believe that the need for such action is evidenced by the FHA appraisals which indicated that the annual rentals are unreasonably low and by the fact that the price-support and acreage-diversion payments to the 284 lessees were significantly in excess of the rentals.

## RECOMMENDATIONS TO THE SECRETARY OF THE ARMY

We recommend that the Secretary of the Army require the Chief of Engineers to:

- Establish a rental rate policy for the leasing of Federal lands for agricultural purposes, which provides for (1) suitable documentation in support of appraisal rental values for all leases, including the type of adjustments considered appropriate in establishing such values, (2) periodic study and adjustment of rental rates to reflect changes in the open market, and (3) consideration of a specific rate of return as a standard for evaluating the reasonableness of appraised rental values.

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In commenting on a draft of this report, the Special Assistant to the Secretary of the Army (Civil Functions), by letter dated March 17, 1971 (see app. I), expressed the belief

that the Corps' present system of rental rate determination was adequate. He also stated that:

"\*\*\* as there are indications that price-support payments are not properly reflected in the rental appraisals, \*\*\* this aspect of the appraisal program will be further investigated and necessary corrective action taken."

He advised us that future appraisals would reflect changes in the economy and all other factors, such as price-support payments, which affect rental values.

With respect to our proposed use of a specific rate of return for determining rentals, the Special Assistant to the Secretary stated that such a rate was completely contrary to the reaction of individuals in the open market and could only be used as a rough approximation of the desirable economic return. We agree with this concept. Because most of the leases of the Federal land are primarily low rental value leases for which the appraisals are not required to include market data, we believe that a specific rate of return, if properly developed and periodically adjusted to reflect changes in the private market, could be used as a standard for determining the reasonableness of appraised rental values.

CHAPTER 3

NEED TO REEVALUATE LEASE AGREEMENTS

AT OLDER RESERVOIRS

At the older reservoirs where land was acquired prior to the 1956 Presidential memorandum, the Corps leases that part of the land not used for project purposes to former owners or their tenants for extended periods, in some instances up to 30 years, without prohibiting the production of price-supported crops.

A Corps regulation implementing the Presidential memorandum states that commitments were generally made to former owners and tenants of land acquired before 1956 that they might continue to lease unfloded lands for agricultural purposes.

As previously noted in chapter 2, of the 375 leases at five reservoirs covered during our review, 284 of the lessees received agricultural payments from the Department of Agriculture in the amount of \$302,000 during crop year 1969. We found that 121 of the leased lands were being operated by individuals other than the former owners or tenants. Our review showed that, as indicated in the following table, agriculture payments on these lands in crop year 1969 amounted to about \$156,000 for which the Corps received rentals of about \$67,000.

<u>Reservoir</u>	<u>Leases in ASCS program</u>	<u>Acres</u>	<u>ASCS payments</u>	<u>Corps rental</u>	<u>Excess ASCS payments over Corps rental</u>
Enid <sup>a</sup>	42	4,449	\$ 44,149	\$21,495	\$22,654
Grenada	59	6,627	84,683	24,410	60,273
Wappapello	10	2,472	10,487	6,701	3,786
Harlan	7	2,031	15,168	11,457	3,711
Kanopolis	<u>3</u>	<u>780</u>	<u>1,224</u>	<u>3,267</u>	<u>-2,043</u>
Total	<u>121</u>	<u>16,359</u>	<u>\$155,711</u>	<u>\$67,330</u>	<u>\$88,381</u>

We believe that the Corps is permitting the production of price-supported crops on Federal lands leased to former owners who are no longer operating the land. Such action, in our opinion, is (1) inconsistent with the Department of Agriculture's efforts to reduce price-depressing surpluses of certain

crops and to bring agricultural production in line with markets and (2) contrary to the intent of Public Law 86-423, which states that only former owners who continuously occupy lands under leases should retain their price-support allotment and allotment pool options.

With regard to this same subject, we noted that the Inspector General, Department of Agriculture, in a report in December 1970, recognized a need for improved coordination between executive agencies and ASCS State and county offices involved in the price-support programs who control and lease lands for agricultural purposes. The Inspector General noted that production adjustment and price-support restrictions on federally owned lands were not adequately controlled and recommended that a policy be established which would prohibit the production of price-supported commodities except where priority lessees and State wildlife agencies are involved.

The Inspector General noted also that ASCS generally had not been informed by the agencies as to the federally owned lands devoted to agricultural purposes. The Corps was specifically cited as not providing ASCS with lease information on about 1.6 million acres of federally owned land leased to State fish and wildlife conservation agencies on which price-support commodities were being produced under subleases with local farmers.

The report also noted problems where lands that were owned by Federal agencies were leased under restrictive leasing agreements and were combined with privately owned lands and enrolled under price-support programs. The Inspector General recommended that ASCS regulations applicable to the various agencies be revised so as to eliminate bases and allotments on federally owned lands, except for lands leased by former owners who have not been displaced from the land and who properly still retain their price-support rights for the land.

In an earlier special audit report by the Department of Agriculture that dealt with federally owned leased lands operated under ASCS programs, the Department recommended that information be furnished to ASCS to explain the status of third-party leases and other subleases of Government lands that contain restrictive clauses regarding what crops may or may not be grown.

This audit report specifically cited problems in coordination between the Corps and ASCS that involved lease information. It stated that lands leased to State agencies were being subleased to farmers who subsequently were growing price-support crops on the lands and that ASCS was not being provided with information on these arrangements.

## CONCLUSIONS

The Corps' policy of leasing Federal lands, acquired prior to 1956, for indefinite periods without restriction as to crops grown has resulted in former owners or tenants, who are not operating the land, receiving agriculture payments from the Department of Agriculture substantially in excess of the rentals paid to the Corps for the land. This is inconsistent with the Department of Agriculture's efforts to control the production of such crops and is contrary to the intent of Public Law 86-423.

## RECOMMENDATIONS TO THE SECRETARY OF THE ARMY

We recommend that the Secretary of the Army require the Chief of Engineers to:

- Reevaluate the Corps' current policies and practices for leasing Federal lands for agricultural purposes and consider the feasibility of establishing (1) guidelines which will ensure appropriate consideration of such matters as the Corps' commitments to former owners, the extent to which former owners continue to operate the land, and the potential impact upon the commodity adjustment programs of the Department of Agriculture and (2) procedures which will provide for a periodic reevaluation of lease agreements.

In our draft report submitted to the Secretary of the Army for comment on January 8, 1971, we recommended that the Chief of Engineers be required to study the feasibility of establishing a uniform policy for leasing Federal lands for agricultural purposes and that such study give appropriate consideration to such matters as the Corps' commitment to former owners and tenants of former owners, the extent to which former owners continue to operate the land, the potential savings available to the Government as a result of a uniform policy, and the impact of a revised policy upon the programs of the Department of Agriculture.

In commenting on our draft report, the Special Assistant to the Secretary of the Army (Civil Functions) (see app. I) stated that, prior to 1956, the Department of the Army's policy provided for commitments to former owners or their tenants occupying the land at the time of acquisition to lease lands with no limitation on the total period of occupancy. He stated that, under these commitments, the former owner or tenant was permitted to grow price-supported crops. He stated also that, although this policy was changed in 1956 after a complete review of the agriculture and grazing lease program, the Department of the Army determined that these commitments, expressed or implied, would continue to be honored.

He stated, however, that he asked the Corps to reanalyze its current policies and practices concerning the leasing of project lands for agricultural purposes and to consider the factors mentioned in our recommendation.

Because the Corps has made commitments to former owners and their tenants, we agree that it may be reasonable to continue to honor the commitments.

With regard to those lands operated by other than former owners or tenants, the Special Assistant to the Secretary of the Army stated that the Corps' commitment should be limited to situations where the former owner or tenant would personally conduct or maintain supervisory control over the operations. The Chief of Engineers interpreted this to include the employment of a manager, tenant farmer, or sharecropper. He said that the study to be made by the Corps of Engineers would reconsider this interpretation of supervisory control and would review this aspect of the leasing program.

In a letter dated March 12, 1971 (see app. II), the Acting Administrator, ASCS, stated that the determination of the amount of a lease, or any restrictions that should be included in the lease, was the responsibility of the leasing agency; the ASCS responsibility was to adhere to the provisions of the lease in the administration of these programs.

The Office of the Inspector General, Department of Agriculture, by letter dated March 4, 1971 (see app. III), stated that he agreed with the objectives of our report.

APPENDIXES





DEPARTMENT OF THE ARMY  
WASHINGTON, D.C. 20310

APPENDIX I

In Reply:  
OSD Case 3228

17 MAR 1971

Honorable C. M. Bailey  
Director, Defense Division  
U. S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Bailey:

This is in response to your letters to the Secretary of Defense and the Secretary of the Army requesting comments on your draft report entitled "Improvements needed in leasing Federal lands for agricultural purposes, Corps of Engineers (Civil Functions), Department of the Army."

Based on the contents of Chapter 2 of the draft report your first recommendation is: "In order to ensure a more reasonable rate of return to the Federal Government, we recommend that the Secretary of the Army require the Chief of Engineers to establish a policy for determining rental rates which will (1) include a specific rate of return considered to be equitable and consistent with the private market, (2) provide criteria for the type of adjustment to be appropriate and extent of documentation required, and (3) provide for periodic study and review of all rates to reflect changes in the economy."

Corps of Engineers' rental appraisals are based on the market data approach to fair market rental value. Values reflected for the properties are based on what comparable lands of the greatest possible similarity rent for on the open market. The market is sometime a cash rental one, in other instances it is a share basis. If a share crop comparable is used, the appraiser translates the income flow into proportionate dollar amount based on the agreement. The use of a fixed specific rate of return for determining rentals is completely contrary to the reaction of individuals in the open market and can only be used as a rough approximation of the desirable economic return.

Any rental appraisal prepared by the Corps of Engineers should reflect current economic conditions and should be supported by adequate market data reflecting comparable rentals. In the case of low value grants, the appraiser may not include the market data in his report. Pursuant to the Corps' regulations he must, however, be sufficiently familiar with the local market conditions to be able to prepare a reasonable value estimate.

## APPENDIX I

On page 13 of the draft report it is noted that the Corps about doubled the rental payment at Grenada Reservoir for the term beginning in 1970 over the rental payments for the previous term. This was due in part to giving further consideration in the appraisals to price support payments. These payments had not been properly reflected in previous appraisals due to difficulty in obtaining reliable information. As there are indications that price support payments are not properly reflected in the rental appraisals in other areas, this aspect of the appraisal program will be further investigated and necessary corrective action taken.

I believe that the present Corps of Engineers system of rental rate determination is adequate. Future appraisals will reflect changes in the economy and all other factors such as support payments which effect rental values.

Based on the contents of Chapter 3 of the draft report, the second recommendation is: "We recommend that the Chief of Engineers be required to study the feasibility of establishing a uniform policy for leasing Federal lands for agricultural purposes. Such study should give appropriate consideration to such matters as the Corps' commitment to former owners and tenants of former owners, the extent of which former owners continue to operate the land, the potential savings available to the Government as a result of a uniform policy, and the impact of a revised policy upon the program of the Department of Agriculture."

Prior to 1956, the Department of the Army policy provided for commitments to former owners, or their tenants occupying the land at the time of acquisition, to lease lands with no limitation on the total period of occupancy. Under these commitments, the former owner or tenant was permitted to grow price supported crops. Although this policy was changed in 1956 after a complete review of the agriculture and grazing lease program, the Department of the Army determined that these commitments, express or implied, would continue to be honored.

By delegation of authority approved September 25, 1957, the Secretary of the Army directed the Chief of Engineers to enter into leases only with the highest responsible bidder, after advertising, and provided the rental offered is not less than the fair market value of the property.

1. As an exception to the above, the Chief of Engineers was authorized at his discretion, to negotiate leases at not less than the fair market rental, with the former owner or his tenant.
2. The Secretary of the Army specified that these negotiated leases would be on a year-to-year basis until the establishment of the land management plan and thereafter for one term of five years.

3. After the 5-year term, advertising is required unless, at the time of acquisition, a commitment was made to the former owner or his tenant that leases would be negotiated beyond the 5-year term, in which event, the commitment will be honored.

The Corps of Engineers continues to recognize valid commitments made to former owners or their tenants.

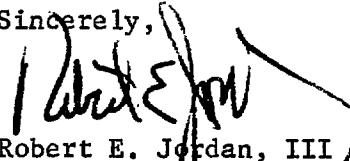
In view of your recommendation and the enactment of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (Public Law 91-646), I am asking the Corps of Engineers to reanalyze our current policies and practices concerning the leasing of project lands for agricultural purposes. This study will consider all of the factors mentioned in the recommendation at the end of Chapter 3 of your draft report.

The draft report indicates on page 12 that of the 284 unrestricted lessees at five reservoirs in the Memphis and Vicksburg Districts, 218 had subleased to other tenants. The report does not state whether this was a complete subleasing that amounted to an assignment. In his delegation to the Chief of Engineers, the Secretary of the Army stated that the Corps' commitment should be limited to situations where the former owner or tenant would personally conduct or maintain supervisory control over the operation. The Chief of Engineers interpreted this to include the employment of a manager, tenant farmer or sharecropper. The study to be made by the Corps of Engineers will reconsider this interpretation of supervisory control and review this aspect of the leasing program.

In response to the statement that the Farmers Home Administration (FHA) appraisals at Wappapello Reservoir (page 13 of the draft report) were higher than the Corps' appraisals, the Memphis District Engineer would appreciate reviewing the FHA appraisals to determine the actual methodology used. This information will be of interest during our upcoming review process.

I trust that these comments will be of assistance in writing your final report. We appreciate the opportunity to comment on your draft report and your efforts in preparing this helpful report.

Sincerely,



Robert E. Jordan, III  
Special Assistant to the Secretary of the Army  
(Civil Functions)



UNITED STATES DEPARTMENT OF AGRICULTURE  
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE • WASHINGTON, D.C. 20250

MAR 12 1971

Mr. Bernard Sacks  
Assistant Director  
Civil Division  
United States General  
Accounting Office

Dear Mr. Sacks:

This replies to your letter of January 8, 1971, enclosing a proposed report concerning leasing federal lands for agricultural purposes by Corps of Engineers (Civil Functions) Department of the Army.

The subject report contains no recommendations regarding ASCS administrative regulations relative to leasing of federal land. However, because reference is made to ASCS program payments made on this land, it seems appropriate to briefly outline the pertinent portions of our administrative instructions which pertain to payments on such land. We believe these administrative instructions adequately reflect recognition that rentals for such land are frequently below the average for the area.

Under regulations and procedures issued with respect to administration of cotton, feed grain and wheat programs, the responsibility for determining the amount of a cash lease and what restrictions, if any, should be included in the lease was the responsibility of the leasing agency; our responsibility was to adhere to the provisions of the lease in the administration of these programs.

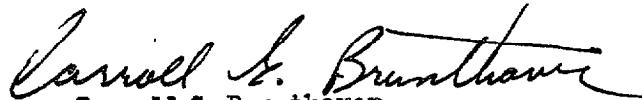
County committees were required to verify the terms of each government leasing agreement before approving the application to participate in a program. If the lease contained a restrictive provision in the use to be made of the land, such land could not be retained in combination with other land owned or operated by such producers. In addition, the crop(s) under restriction was not considered eligible for program payments or price support.

Lessees with nonrestrictive rental agreements were considered eligible to participate under applicable program provisions. However, the per acre payment for diverting government-owned land was adjusted downward

Mr. Bernard Sacks

to reflect differences between the cash rent being paid and the regular diversion rate. No reduction was made in price support payments since these payments were considered as income from marketing and applied to crops actually produced.

Sincerely,



Carroll G. Brunthaver  
Acting Administrator

APPENDIX III

UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF THE INSPECTOR GENERAL  
WASHINGTON, D.C. 20250

MAR - 4 1971

Mr. Bernard Sacks  
Assistant Director  
Civil Division  
U.S. General Accounting Office  
Washington, D.C. 20250

Dear Mr. Sacks:

We agree with the objectives of the draft report on "Improvements Needed in Leasing Federal Lands for Agricultural Purposes." We have realized for several years that there needs to be more meaningful coordination among Federal agencies in order to comply with the 1956 Presidential memorandum provisions.

You may be interested to know that in 1970 we made an audit in the general area of your above audit. Our audit is entitled "Nationwide Wheat and Feed Grain Program Audit" (Report No. 6069-1-K).

Sincerely,



L. J. ROTH  
Assistant Inspector General  
Analysis and Evaluation

## CORPS OF ENGINEERS RESERVOIRS DISCUSSED IN THIS REPORT

<u>Reservoir</u>	<u>State location</u>
Perry	Kansas
Milford	Kansas
Harry S. Truman	Missouri
Rathbun	Iowa
Robert S. Kerr	Oklahoma
Webbers Falls	Oklahoma
John Redmond	Kansas
Kanopolis	Kansas
Harlan County	Nebraska
Wappapello	Missouri
Grenada	Mississippi
Enid	Mississippi

PRINCIPAL MANAGEMENT OFFICIALS OF  
THE DEPARTMENT OF DEFENSE  
AND THE DEPARTMENT OF THE ARMY  
RESPONSIBLE FOR ADMINISTRATION OF THE ACTIVITIES  
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE:		
Melvin R. Laird	Jan. 1969	Present
Clark Clifford	Mar. 1968	Jan. 1969
Robert S. McNamara	Jan. 1961	Feb. 1968
Thomas S. Gates, Jr.	Dec. 1959	Jan. 1961
Neil McElroy	Oct. 1957	Dec. 1959
Charles E. Wilson	Jan. 1953	Oct. 1957
<u>DEPARTMENT OF THE ARMY</u>		
SECRETARY OF THE ARMY:		
Robert F. Froehlke	July 1971	Present
Stanley R. Resor	July 1965	June 1971
Stephen Ailes	Jan. 1964	July 1965
Cyrus R. Vance	July 1962	Jan. 1964
Elvis J. Stahr, Jr.	Jan. 1961	June 1962
Wilber M. Brucker	July 1955	Jan. 1961
CHIEF OF ENGINEERS:		
Lt. Gen. Frederick J. Clarke	Aug. 1969	Present
Lt. Gen. William F. Cassidy	July 1965	July 1969
Lt. Gen. Walter K. Wilson, Jr.	May 1961	June 1965
Lt. Gen. Emerson C. Itschner	Oct. 1956	Mar. 1961
Lt. Gen. Samuel D. Sturgis	Mar. 1953	Sept. 1956

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