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Leasing Arrangements in a Beef Cattle Enterprise

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Objectives

- Point out terms that should be discussed in developing a livestock lease agreement
- Show example calculations for cost and returns
- Provide overview of farmland lease agreements

Lease agreements are a tool used by agricultural producers to efficiently utilize their resources. Leasing lowers one of the most common barriers to agricultural production - capital expenditure. Leasing can combine the talents of one party with the resources of another and benefit both. Beginning farmers can use a lease agreement as a way of starting or expanding their business. Farmers at or near retirement can use lease agreements as a way of reducing daily activities while still generating income from owned land. This chapter discusses features of common lease agreements.

Lease Agreements for Livestock¹

Managing risk is required for many farm enterprises to be profitable. Contractual arrangements, such as livestock leases, can be crafted to lend or transfer capital, while also sharing risk. The terms of the agreement depend on the contributions of the livestock owner and caretaker, as well as the motivation for the lease. A lease agreement may be the means for an older owner to compensate a livestock caretaker. A pasture producer or owner may also use a livestock lease agreement to generate income without committing labor or additional capital.

Through lease arrangements, the livestock owner shares with a caretaker the production risks, expenses, and returns. While the owners may give up a portion of the risk, they may also give up some of the decision-making power. For a successful relationship between the owner and caretaker, the following elements should be present:

- The owner must be willing to risk some capital.
 - The owner and caretaker should have mutual trust and confidence in each other.
 - The caretaker must convince the owner that he or she is capable and has the managerial ability, honesty, and integrity to manage the livestock enterprise.
 - The caretaker must be confident that the owner will deal fairly and honor the contract arrangements for shared returns.
 - The owner must be convinced that the return on investment in livestock, fences, and buildings will compare favorably with investments made elsewhere.
- The livestock owner may want to check the caretaker's references, and the caretaker may want to investigate the owner's reputation for fairness and honesty.
- The owner and caretaker should communicate clearly their expectations for the arrangement. The lease should be a written contract agreed upon by both parties. The arrangement can be simple, but it should cover all the important points. The agreement should include the names and addresses of participants, and it should answer the following questions:
- When does the agreement start? How long will it run?
 - Is it automatically renewable?
 - How many acres of land, and what type of pastures and crops are included? (Include legal descriptions, if possible.)
 - What is the expected stocking rate?
 - When and how must termination be given? What are grounds for termination?
 - When and where will the agreement be annually reviewed?
 - Is a partnership intended?
 - Which party **pays** for feed, water, care, veterinary services, medicine, fencing, and so on?
 - Which party **provides** the feed, water, care, veterinary services, medicine, fencing, and so on?
 - What is the share of the output for each party?
 - How will stockers be priced if one party buys stockers from the other?
 - When and where will the share of output be divided?
 - What will determine the amount of death loss for each party? How is death loss proven?
 - Should stockers, cows, or bulls be insured? Who will carry the insurance?
 - What facilities will be used?
 - Are there special agreements on feeding/handling of stockers, cows, or calves?

- Will incentives be provided for doing a good job? Will penalties be assessed for doing a poor job?
- What records will be kept? How will animals be identified?
- How will extenuating circumstances such as drought, hail, or major health problems that are not the caretaker's fault be handled?
- What limits, if any, will be placed on the activities of the caretaker? For example, can the caretaker add other cattle to the owner's herd?
- How will disagreements be settled? Is there a way for both parties to get out of the agreement?
- If the owner terminates the agreement prior to the agreed-upon end point, how will the caretaker be compensated for expenses up to the date that the cattle are removed from the producer's premises?
- Are production improvements needed? If so, who will pay for them?
- How will culls be disposed of and when will it occur? How will replacements be handled?
- Who provides bulls, if bulls are to be provided?
- What type and quality of bulls (or semen) will be used?
- What is the agreement for growing replacement heifers?

Alternative Rental Arrangements

An infinite number of possible arrangements for sharing the income from livestock, land, and the other



Leases allow sharing of resources and skills.

Table – 3.1 Sample cow-calf share arrangements.

Input	Arrangement 1		Arrangement 2		Arrangement 3		Arrangement 4	
	C ^a	O	C	O	C	O	C	O
Cows, bulls		100%		100%		100%		100%
Land/Pasture		100%		100%	100%		50%	50%
Labor	100%		100%		100%		100%	
Management	50%	50%	100%		100%		100%	
Buildings		100%		100%	100%		50%	50%
Machinery and equipment	100%		100%		100%		100%	
Feed	100%		100%		100%		50%	50%
Other cash costs		100%		100%	100%		50%	50%
Calf crop ^b			25%	75%	75%	25%		
Receipts ^c	10-20%						50%	50%

a Column headings are C for caretaker, O for cow owner.

b Includes steers and nonreplacement heifers.

c Includes steers and nonreplacement heifers plus replacement heifers, cull bulls, and cows.

resources used to maintain them could be developed. Four alternatives are summarized in Table 3.1. It is important that both parties itemize their expected contribution and value. The contribution from each party may vary considerably as outlined in the examples.

Arrangement 1 - The ranch owner pays the caretaker for labor and management with a share of the gross receipts. A ranch owner could use this type of arrangement to furnish capital for beef production, giving a young producer the chance to acquire capital.

Arrangement 2 - The caretaker receives 25% of the calf crop for providing labor and management plus 100% of machinery and equipment and feed.

Arrangement 3 - Under this arrangement, the owner furnishes bred cows and no replacements are grown. The caretaker may be interested if he or she has some available pasture and feed and is willing to take on the responsibility of caring for someone else's cows.

Arrangement 4 - An arrangement in which the caretaker and cow owner share land costs might be used if neither party owns land. Replacements are raised.

Calculating Expected Costs and Returns of an Agreement

Generally, the percent of profits that parties receive is based on their contributions to the enterprise. The income may be divided in a way that does not match each party's contribution to the enterprise if the owner and caretaker agree upon the terms. Because of the differences in individual farms and items furnished, the contributions in different arrangements may appear similar when, in reality, they may vary a great deal. Land and pasture quality are variable as is the quality of breeding stock. Labor requirements on timber pasture are higher than on open pasture. Calculating the expected costs and returns of the herd allows leasing parties to explore different share arrangements.

Downloadable lease spreadsheets for both breeding livestock and stockers are located at <http://agecon.okstate.edu/faculty/ffmr.asp> the Farm Financial

Management Resources Web site.² Tables 3.2 through 3.4 summarize the details of a cow-calf leasing arrangement and match screens in the spreadsheet. The tables outline the investment data, fixed costs, operating expenses, and expected income to be shared by the two partners, referred to as caretaker (C) and cow owner (O). The individual fixed costs, operating expenses, and income are estimated and stated on an annual basis per cow. The share percentages in the example correspond to Arrangement 1 in Table 3.1.

The first step is to summarize the data explaining the investment in land, livestock, buildings, and equipment (Table 3.2). The land's value for ranching purposes should be used in these calculations. The value of the land for other development purposes is irrelevant if it is to be used for agriculture. The return may be the opportunity cost of money invested in the land if it is debt free, or the rate of return may be the interest rate on debt outstanding on the loan secured by the land. If a tenant does not use the improvements on the land, they should

Table 3.2 – Sample cow herd investment data.

800	Acres in unit
\$1,000	Land value per acre
100	Number of cows in herd
3.0%	Rate of return on land
0.25%	Property taxes as percent of land value
0	Improvement value
0	Improvement salvage value
3.0%	Rate of return on improvements
20	Average life of improvement
1.6%	Tax and insurance rate on average value of improvements
\$900	Average cow purchase price
\$500	Cull cow value
5.0%	Interest or opportunity interest on breeding livestock
5	Average life of herd (years)
1.6%	Tax and insurance rate on average value of cow
2%	Cow death loss percent
\$3,000	Average bull purchase price
\$1,000	Cull bull value
5.0%	Interest or opportunity interest on breeding livestock
4	Ave. life of bull (years) 30 cows/bull
1.6%	Tax and insurance rate on average value of bull
2%	Bull death loss percent
\$40,000	Average value of machinery and equipment
\$8,000	Machinery salvage value
33%	Proportion charged to this enterprise
5.0%	Interest or opportunity interest on machinery
10	Average life of machinery complement
1.6%	Tax and insurance rate on value
86.1%	Calf crop percent
3.8%	Calf death loss percent
24	Number of heifers kept for replacements. Must be greater than or equal to 24
2%	Replacement heifer death loss percent

be excluded from the cost of ownership calculation to avoid an unrealistically high rental fee.

Fixed costs incurred with the ownership of a cow herd include costs associated with land, buildings, breeding livestock (cows and bulls), equipment and machinery, conservation, management, and labor. The user of the worksheet or spreadsheet must provide the figures. The spreadsheet program calculates other figures automatically. The data used to calculate the fixed costs associated with the cow-calf operation are shown in the top section of Table 3.3.

Operating expenses are incurred with the day-to-day upkeep of the herd. These costs are directly related to herd size. Operating expenses may include feed and pasture, labor, fencing, veterinary supplies and services, artificial insemination, insect control, marketing expense, hauling, machinery and equipment, registration, water, and operating interest. Once the annual costs are estimated, the parties must agree upon the contribution each will make toward meeting those expenses. The caretaker's portion is multiplied by the annual costs. Subtracting the caretaker's costs from the total annual costs derives the cow owner's costs. The total fixed costs and operating expenses are summed and each party's cost is divided by the total costs to determine the percentage of fixed costs and operating expenses contributed by each party.

The herd produces income by selling raised steers and heifers, selling cull cows and bulls, adding replacement heifers, and/or selling yearling heifers (Table 3.4). If income is shared using a specified percent of the calf crop, the caretaker and the owner split the proceeds from the sale of steers and heifers. If the returns are shared using a percentage of gross receipts, the parties may split the proceeds from the sale of steers, heifers, cull cows, cull bulls, and replacement heifers.

Renting Beef Cows

Under certain conditions, renting cows may be preferable to a share arrangement. For example, a farmer contemplating retirement may be interested in renting out cows. A young farmer, limited on capital, may be interested in renting extra cows to utilize pasture. In either case, neither party may be interested in renting for long periods of time. The same information used to determine the value of contributions to a share arrangement is used to determine a rent desired and an ability to pay rent.

Table 3.5 shows how an owner might determine costs for rental purposes. Compensation is expected for a return on investment, depreciation, taxes, and death losses. The prospective renter should estimate the returns from a cow (or herd) to determine how much rent could be paid. An example is illustrated in Table 3.6. OSU budget templates found at <http://www.agecon.okstate.edu/budgets> might be helpful to the renter in estimating potential returns for different systems.

Table 3.3 – Sample cow herd cost shares (per cow basis).

Fixed Costs	Annual Cost	Caretaker Share	Caretaker Costs	Owner Cost
Owned land				
Return on investment	\$240.00	0.0%	\$0.00	\$240.00
Real estate taxes	\$20.00	0.0%	\$0.00	\$20.00
Maintenance	\$0.00	0.0%	\$0.00	\$0.00
Buildings and other improvements				
Interest/return on investment	\$0.00	0.0%	\$0.00	\$0.00
Depreciation	\$0.00	0.0%	\$0.00	\$0.00
Repairs	\$0.00	0.0%	\$0.00	\$0.00
Taxes and insurance	\$0.00	0.0%	\$0.00	\$0.00
Breeding livestock: cows				
Interest/return on investment	\$36.25	0.0%	\$0.00	\$36.25
Depreciation	\$90.00	0.0%	\$0.00	\$90.00
Taxes and insurance	\$11.60	0.0%	\$0.00	\$11.60
Death losses	\$14.50	0.0%	\$0.00	\$14.50
Breeding livestock: bulls				
Interest/return on investment	\$3.33	0.0%	\$0.00	\$3.33
Depreciation	\$16.67	0.0%	\$0.00	\$16.67
Taxes and insurance	\$1.07	0.0%	\$0.00	\$1.07
Death losses	\$1.33	0.0%	\$0.00	\$1.33
Equipment and machinery				
Interest/return on investment	\$3.96	100.0%	\$3.96	\$0.00
Depreciation	\$10.56	100.0%	\$10.56	\$0.00
Taxes and insurance	\$1.27	100.0%	\$1.27	\$0.00
Conservation measures	\$0.00			
Management	\$10.00	50.0%	\$5.00	\$5.00
Labor				
Cow owner	\$0.00			
Caretaker	\$30.00		\$30.00	
Total Fixed Costs	\$490.54		\$50.79	\$439.75
% of Total Fixed Costs	100%		14%	86%
Operating Expenses	Annual Cost	Caretaker Share	Caretaker Cost	Owner Cost
Feed and pasture				
Spring, summer grazing	\$57.00	0.0%	\$0.00	\$57.00
Winter grazing	\$0.00	0.0%	\$0.00	\$0.00
Hay	\$49.00	0.0%	\$0.00	\$49.00
Grain	\$0.00	0.0%	\$0.00	\$0.00
Supplement	\$58.00	0.0%	\$0.00	\$58.00
Salt and mineral	\$3.00	0.0%	\$0.00	\$3.00
Other	\$0.00	0.0%	\$0.00	\$0.00
Labor, hired				
General	\$30.00	100.0%	\$30.00	\$0.00
Calving	\$0.00	100.0%	\$0.00	\$0.00
Fencing	\$4.00	0.0%	\$0.00	\$4.00
Veterinary and supplies	\$8.00	0.0%	\$0.00	\$8.00
AI semen	\$0.00	0.0%	\$0.00	\$0.00
Insect control	\$2.00	0.0%	\$0.00	\$2.00
Marketing expense	\$7.00	0.0%	\$0.00	\$7.00
Hauling	\$2.00	0.0%	\$0.00	\$2.00
Mach., equip.: fuel,lube,repairs	\$24.00	0.0%	\$0.00	\$24.00
Registration	0	0.0%	\$0.00	\$0.00
Water	0	0.0%	\$0.00	\$0.00
Operating interest	\$15.00	0.0%	\$0.00	\$15.00
Other	\$0.00	0.0%	\$0.00	\$0.00
Total Operating Expense	\$259.00		\$30.00	\$259.00
Percent of Operating Expenses		12.0%	88.0%	
Total Costs	\$749.54		\$80.79	\$988.75
Percent of Total Costs	100%		12%	88%

Source: Cow-calf Lease Arrangements spreadsheet at <http://agecon.okstate.edu/Faculty/ffmr.asp>.

Table 3.4 – Sample summary of expected receipts for herd.

Calving Percent 85.0%	Average Number	Average % Death Loss	Kept for Replacement	Average Number Sold	Value Weight in lbs	Average Price per cwt	Average Per Animal	Farm Income	Per Cow Income
Steers	50.0	3.8%		41.4	530	\$112.93	\$598.53	\$24,788	\$247.88
Heifers	50.0	3.8%	24	17.4	500	\$105.19	\$525.95	\$9,159	\$91.59
Cull cows	20.0	2.0%		19.6			\$500.00	\$9,800	\$98.00
Cull bulls	0.8	2.0%		0.82			\$1,000.00	\$817	\$8.17
Replacement heifers	4.0	2.0%		3.92	825	\$89.15	\$735.49	\$2,883	\$28.83
							Totals	\$47,446	\$474.00

	Total Receipts	Caretaker Share	Caretaker Receipts	Owner Receipts
Steers	\$247.88	15.0%	\$37.18	\$210.69
Heifers	\$91.59	15.0%	\$13.74	\$77.85
Cull cows	\$98.00	15.0%	\$14.70	\$83.30
Cull bulls	\$8.17	15.0%	\$1.23	\$6.94
Replacement heifers	\$28.83	15.0%	\$4.32	\$24.51
	\$474.47		\$71.17	\$403.29

Per Cow Summary	Caretaker	Owner	Total
Expected Income	\$71.17	\$403.29	\$474.46
Total Operating Expense	\$30.00	\$229.00	\$259.00
Income Available to Cover Fixed Costs	\$41.17	\$174.29	\$215.56
Total Fixed Costs	\$50.79	\$439.75	\$490.54
Net After All Costs	-\$9.62	-\$265.46	-\$275.07

Source: Cow-calf Lease Arrangements spreadsheet at <http://agecon.okstate.edu/Faculty/ffmr.asp>.
Boxes identify user input into spreadsheet as opposed to automatic calculation.

Table 3.5 – Sample livestock owner costs per beef cow for rental purposes.

1. Interest/return on average investment^a

$$\frac{\text{Cost} + \text{Cull Cow Salvage Value}}{2} \times \text{Interest Rate} = \frac{\$950 + \$500}{2} \times 5\% = \$36.25$$

2. Depreciation

$$\frac{\text{Cost} - \text{Cull Cow Salvage Value}}{\text{Expected Years of Herd Life}^b} = \frac{\$950 - \$500}{5} = \frac{\$450}{5} = \$90.00$$

3. Taxes

$$= 10.40$$

4. Death Loss of 2% on Average Investment

$$= \frac{\$950 + \$500}{2} \times 2\% = \$14.50$$

$$\text{Total Costs of Ownership (\$ per Cow)} = \$151.15$$

a The interest rate is the opportunity cost of having funds invested in cows rather than an alternative.

b May use eight-year life for young cows. For a group of mixed aged cows, a five-year life would be more reasonable.

Table 3.6 – Sample renter beef cow returns.

Gross Sales	
520 lbs x \$1.10/lb x 86% calf crop	= \$492
Costs	
Grazing	\$57
Hay	49
Supplement	58
Salt and minerals	3
Labor	30
Fencing	4
Vet. and med.	8
Insect control	2
Marketing	7
Hauling	2
Fuel, lube, repairs	24
Operating interest	15
Total Costs	= \$259
Left to pay for cow rental and overhead	= \$233

This method of estimating both costs of ownership and maintenance approaches the problem from both the owner's and renter's view. The results will yield a range of values within which bargaining can take place between the owner and renter.

Leasing Bulls

Another way for the cow owner to reduce expenses is to lease, rather than own, a bull. The producer must compare the costs and benefits of leasing a bull with owning a bull. Leasing eliminates the capital expenditure of purchasing a bull. The cost of purchasing a bull depends on the cattle market and quality of the bull. Most bull owners in the leasing business charge from \$500 to \$700 per breeding season.

A leased bull is generally only kept during the breeding season so operating costs are reduced. Costs of feeding, veterinary and medicine expenses, marketing of cull bulls, and risk of death loss must be considered. For example, the cost of feeding a bull might be \$350 per year with veterinary and medicine, marketing, and death loss (1%) of approximately \$35. Labor is estimated at about \$45 per year, making the total cash costs equal \$430 per bull for one year.

Another cost of owning a bull is depreciation and interest. Table 3.7 gives an example of the depreciation costs for a 1,500-lb bull depreciated for three and four years. Look again at Table 3.5 for an example of how to calculate depreciation.

Table 3.7 – Sample annual depreciation costs for bulls retained 3 or 4 years.

Salvage Value	Purchase Price		
	\$2,000	\$3,000	\$4,000
\$1000, Own for 3 years	333	667	1000
\$1000, Own for 4 years	250	500	750

The cow owner must also consider how leasing a bull could affect the health of the herd. Leasing virgin bulls is ideal to ensure that a venereal disease such as vibriosis or trichomoniasis is not introduced into the herd. This may not be an option, so owners should consult a veterinarian to ensure that leased bulls are healthy.

If they have adequate capital and a large cow herd over which to spread operating costs, producers may want to own one or more bulls to ensure they have a quality bull for use each season. There is also the benefit of the salvage value when the bull is sold. A bull expense calculator available at <http://www.aaec.vt.edu/fbm/bull/Bull.htm> was developed at Virginia Tech and might be useful in calculating costs of bull ownership.

Tax Considerations

If cow owners lease their cows and receive a base cash rate, they will not be subject to self-employment tax on that income. However, a cow owner who shares a portion of the production risk will be subject to self-employment tax. Production risk occurs if the owner's returns are a portion of the calf crop or if the owner shares a role in the management of the cow herd. The IRS defines the management role as material participation and considers the cow owner to have materially participated if:



Leasing bulls may help lower production costs for small cow-calf operations.

1. The producer does any three of the following activities:
 - a. Inspect production activities, for example, calving or feeding. Inspecting property or improvements does not count.
 - b. Consult with the caretaker about production of the cow enterprise.
 - c. Furnish at least half (may be less under some circumstances) of the tools, equipment, and livestock used in the enterprise.
 - d. Share at least half (may be less under some circumstances) of the production expenses.
2. The cow owner regularly and frequently makes decisions that significantly affect the success of the farm operation.
3. The cow owner works at least 100 hours spread over five or more weeks on activities connected to the cow enterprise.
4. Even if the cow owner does not meet 1, 2, or 3, his or her activities, when considered together, may be enough for a ruling of material participation.

Because material participation is somewhat difficult to define, the cow owner should consult with a tax advisor.

Farmland Lease Agreements

Leasing land is often a cost-effective means of acquiring forage. Cash leases and share leases are common rental arrangements for land in Oklahoma. Cash leases may require a fixed payment, either cash or a specified yield for instance, 10 bushels of wheat or one ton of hay. In share leases, income and certain costs are shared between tenant and landlord and management decisions may be made jointly. Rental agreements and rates are influenced by many factors including:

- The location and quality of land
- Improvements on the land
- The landowner's costs
- The tenant's expected earnings
- Previous rates charged
- Competition for the land
- Government programs
- Tax laws
- The general economy
- The party's willingness and ability to bear risks
- Desired land management practices
- The personal relationship between tenant and landlord

Landowners and tenants must choose a type of lease agreement such as fixed or flexible cash arrangements, share arrangements, or some combination. Each type of arrangement has advantages and disadvantages. Some of these advantages and disadvantages are discussed in Table 3.8.

Landowners and tenants should each consider the following questions when choosing a type of lease arrangement:

- What portion of the income do I receive?
- What portion of the costs do I contribute?
- What portion of the risk do I bear?
- What crop and land management practices will be followed?
- What will be the condition of the land after the term of the lease?

As most pasture leases in Oklahoma are cash leases, the focus of the remainder of the chapter will be on cash lease agreements for farmland.

Determining a Fair Rent for the Cash Lease

The market approach provides a good starting point for negotiations. With the market approach, the going cash rental rate for the area is used as a guideline. Although this method appears simple on the surface, many questions must be answered.

- What land in the area is of the same quality with respect to productivity?
- How much is a neighbor actually paying his or her landlord?
- If this land is of superior quality, how much more is the additional quality worth?

Published results of surveys conducted by OSU³ and the Oklahoma Ag Statistics Service⁴ provide information on rental rates.

A second approach is to calculate the cost of land ownership and add an appropriate return on equity. Land ownership costs include:

1. Property taxes on the land.
2. Repairs, depreciation, taxes, and insurance on any improvements on the land that are used by the tenant in the farming operation.
3. A suitable return on the landowner's investment.

A third approach, the residual income method, estimates the fair cash rent using the tenant's expected net return. The expected total income is the sum of expected price times yield plus other income such as wheat pasture rental or government program payments. The time period for the life of the agreement should be considered when estimating prices. The tenant's total costs are:

1. Variable production expenses such as seed, fertilizer, planting, and harvest costs.
2. Fixed production expenses including depreciation, taxes, insurance, and interest on equipment and machinery investments.
3. Return to management and labor. The expected net return (income less total costs and the return to management and labor) is the maximum rent that the tenant can afford to pay.

The tenant and the landlord may want to estimate cash rents using more than one method, compare the

Table 3.8 – Advantages and disadvantages to cash lease and share lease agreements.**The Cash Lease****Advantages to landowner:**

1. More stable income as price and yield risk are eliminated. Income can be scheduled for anytime of the year.
2. Requires less managerial input, thus reducing the worry of production and marketing decisions and the possibility of conflict with the tenant.
3. Eliminates or greatly reduces cash expenditures.

Disadvantages to landowner:

1. Can easily become inequitable due to changes in prices, costs, and technology.
2. Fewer opportunities for income tax management.
3. Will not realize benefits of good price and/or yield years if the agreement is not flexible.
4. A greater chance of the farm being exploited through the depletion of soils or neglect of improvements.

Advantages to tenant:

1. Total managerial freedom, lessening the chances of conflict over decisions with landowner.
2. Receive all the benefits of a good year and superior management.
3. Eliminates time and effort associated with dividing crops and input purchases and the related recordkeeping.

Disadvantages to tenant:

1. Must shoulder the entire price and yield risk if the agreement lacks flexibility.
2. Large capital requirements for inputs.
3. May be required to pay part of the rent early in the year before the crop is planted.
4. Landowners may request a higher rent due to above average yields even though these yields are attributable to above average management.

The Share Lease**Advantages to landowner:**

1. Receives benefit of higher than average prices and/or yields in good years.
2. Land and improvements are more likely to be maintained and improved due to increased landowner involvement.
3. Relieved of many operational decisions in the management of the farm.
4. Material participation may be proved more easily for use value estate purposes than under cash leasing.
5. Passive income versus income when owner materially participates.

Disadvantages to landowner:

1. Need to discuss management and practices with tenant on a continual basis.
2. Increased risk due to price and yield variability resulting in variable, uncertain income.
3. Increased responsibilities and possibilities for conflict with tenant.
4. Must maintain records of shared expenses.
5. Capital requirements of shared input production costs.

Advantages to tenant:

1. Less capital may be required as compared to cash renting.
2. Less experienced tenants can benefit from the landowner's managerial input.
3. Risks due to low yield and/or price are shared by landowner.

Disadvantages to tenant:

1. Need to discuss management and practices with landlord on a continual basis.
2. Landlord managerial input presents more situations for possible conflict between tenant and landlord.
3. Must maintain records of shared expenses.
4. Must share gains from outstanding management and benefits of above average prices and/or yields in good years.

results and negotiate a final figure. By using several different methods, the parties have a chance to see a range of estimated rents, reflecting different points of view. Careful negotiations will provide a balanced agreement that encourages honesty and cooperation between both parties.

A fair rental agreement must be reviewed and adjusted regularly to remain equitable. Changes in prices, costs, and yields can make a fair agreement lopsided in a short period of time. A flexible cash arrangement can reduce the frequency of necessary adjustments and distribute more of the risk between the parties.

However, flexibility does change some of the risks and opportunities faced by the parties. Adding flexibility for price and yield risks shifts more risk to the landowner, but will allow him or her to reap the advantages of good years. In accordance, the tenant will face less risk, but lose some of the benefits of exceptional price and/or yield years. Parties should keep this in mind before adding flexibility to their agreement.

For more detailed information, including example calculations and worksheets, refer to OSU Extension Fact Sheet AGE2-214, "Developing Cash Lease Agreements for Farmland." Free downloadable leasing forms are available at <http://www.mwps.org/> the MidWest Plan Service Web site.

Putting the Agreement in Writing

Once both parties have decided on an equitable agreement, it should be put in writing. The advantages of a written agreement include:

- It encourages emphasis of details and assures a better understanding by both parties.
- Later, it serves as a reminder of the terms originally agreed upon and is valuable when the agreement needs to be evaluated and/or reviewed.
- It provides a valuable guide for the heirs if either the tenant or landlord dies.

In addition to the share arrangement or payment to be made, every lease should include certain items:

- The names and addresses of the parties involved.
- The date when the lease is made, becomes effective, and ends.
- A legal description of the property.
- Number of acres.
- Any reservations of rights by the landlord.
- Rental arrangements—who pays for what inputs, how income is shared, who makes decisions.
- What will be provided by each party (machinery, equipment, labor, and other inputs).
- Willingness to sign security agreement.
- Plan to pay property taxes, repairs, and insurance on improvements.
- Use of premises.
- Farming/ranching practices including how property will be maintained (soil pH and fertility, stocking rate, etc.).

- Compliance with Farm Service Agency, Natural Resources Conservation Service, other agency requirements.
- Other environmental clauses.
- Terms for reimbursing tenant for capital improvements.
- Signatures and acknowledgements of landlord and tenant.
- Signatures of witnesses and/or acknowledgement of recording may also be required.

Conclusion

A livestock lease is an excellent way for cattle owners, landowners, and caretakers to pool their livestock and land resources. If the arrangement is properly laid out ahead of time, the lease can help each party share production risk. The lease should cover all parameters of production and possible situations that could arise over the duration of the contract. The parties entering into the arrangement should clearly define their expectations with respect to sharing of costs and receipts. The owner and caretaker should choose an arrangement that best matches their resources and desired returns.

Cash leasing agreements have advantages and disadvantages to both landowners and tenants. Both parties need to recognize the risks and opportunities they face under a cash agreement. By working together to determine a fair rental charge, the parties will have a greater understanding of the other's position. This understanding should lead to better landowner and tenant relations and keep the agreement fair to both parties.

Arriving at a fair agreement is more likely if several of the methods discussed are used in negotiating the final rental charge. Each method views the agreement from a different perspective and further clarifies each party's position.

Developing an equitable lease agreement requires both the parties to provide estimates of their contributions to production costs (both fixed and variable expenses). The share lease worksheets or spreadsheets can be a helpful tool in drafting an equitable agreement. Although customs in the area may dictate some terms of lease, other terms can be used to tailor the individual situation.

References

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MidWest Plan Service Web site located at <http://www.mwpsdq.org/>
 OSU Livestock Leasing Spreadsheets at <http://agecon.okstate.edu/faculty/ffmr.asp>

Endnotes

- 1 Adapted from "Leasing Cows for a Share of the Calves," Richard T. Clark, Agricultural Economist, University of Nebraska.
- 2 For more information refer to OSU Extension Fact Sheet AGEC-571 Breeding Livestock Lease Agreements, <http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-1768/AGEC-571web.pdf> For comparable information pertaining to stocker lease agreements refer to OSU Extension Fact Sheet AGEC-572 Stocker Lease Agreements, <http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-1769/AGEC-572web.pdf>
- 3 CR-216 Oklahoma Pasture Rental Rates: 2006-2007, <http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-3296/CR-216web06-07.pdf>
- 4 CR-230 Oklahoma Cropland Rental Rates: 2006-07, <http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-3298/CR-230web06-07.pdf>