

## Rental Arrangements Changing with the Times Part 1 — Traditional Leases

**Tom Dorn**  
UNL Extension Educator

The new market for corn and soybeans in the bio-energy industry has impacted not only the price of corn and beans, but all grains, which has affected farm real estate market values and cash rents for farmland. Many rental agreements are being renegotiated this spring. We will discuss some of the traditional cash leases and crop-share leases in this article. In the April issue, we will discuss some of the new “flexible” cash leases and their potential implications vis-a-vis the new farm bill.

### Cash Rent Leases

With a cash lease, the landowner and tenant come to an agreement on the rental price per acre and the payment schedule before any field work has begun. In this type of lease, the tenant pays all production expenses and receives all the crop. By law, all USDA farm program payments go to the tenant, since it is the tenant who is taking all the production risks.

There has been a shift from crop-share to cash rental agreements in recent years. The shift to cash rental agreements is due to the complex nature of crop-share leases.

Tenants like cash share leases because they simplify recordkeeping needed since production expenses and harvest are not split with the landowner. Communication with the landowner is more straight forward, requiring less of the tenants time. Another reason tenants like cash leases is because it gives them an opportunity to reap full benefit resulting from their labor and management skills.

Many landowners prefer cash lease over crop-share lease because they know up-front the amount of income they will receive and they don't pay any part of the crop input expenses. When in a crop share lease, the tenant charges chemicals and seed to the landowner without keeping them informed. Often the landowner doesn't know what the



chemical or fertilizer is or whether the right amount was purchased for their field. Landowners also don't have to worry whether they were credited with their full share of the crop. Another plus for the landowner is with cash rent, they don't have to market the grain to receive their income.

### Crop-Share Leases

In a crop-share rental arrangement, the landowner shares in the risks inherent in growing a crop and receives a share of the crop as his/her rent for the year. The income received depends on the yield and the price the landowner receives when the grain is sold. A “fair lease” is one where the crop is split between the landowner and the tenant in the same proportion each party will contribute toward the total cost of production. When negotiating a lease, the two parties ought to agree what the land is worth and what constitutes a fair rate of return on the value of the land as this constitutes the major contribution the landowner is providing to the partnership. The landowner is paying the property taxes. The depreciation on equipment, plus reasonable estimates for repairs, maintenance, etc. should be credited as part of the contribution the tenant is making. If the tenant chooses to hire a custom operator to perform any of these operations, the tenant pays for the custom work.

Many things have changed over the years. We now have genetically modified crop technology which has reduced the need for some insecticide applications and allowed the use of certain herbicides on crops not naturally tolerant of those herbicides. No-till farming methods,

first touted for the soil conservation benefits, have been made more feasible due to genetic engineering which substitutes herbicides for tillage in many situations.

Technology advances have resulted in fewer field operations needed to grow a crop. This saves the tenant labor, fuel and equipment costs. However, the tenant provides all the equipment, labor and fuel for field operations plus grain hauling. These costs have gone up dramatically in recent years. Tractors and implements have had annual price increases of about eight percent per year. Energy prices have had even more dramatic increases. Table 1 below shows the springtime prices, year-to-year price increases and year-to-year percentage increases for farm diesel over the past five years. Note: Diesel is over three times the price it was five years ago.

### 60–40 Crop-Share

Probably the most common crop-share for grain crops over the years has been a 60–40 crop share. With this arrangement, the landowner receives 40% of the crop and the tenant receives 60%. Production expenses which are split between the landowner

and tenant are usually shared on the same percentage basis as the crop 40% landowner, 60% tenant.

There is no set “standard” stating which inputs “should” be shared and individual leases vary. A NebGuide printed in 1985 showed the most common split at the time. The landowner paid 40% of the fertilizer, herbicide, insecticide and paid the cost to dry his share of the crop. If the land was irrigated, the landowner also paid his share of the irrigation energy cost. In 1985, it usually worked out the return on land value and property taxes plus sharing the input costs discussed above, came close to having the landowner pay his/her 40% share of the total crop expenses.

Other crop-share arrangements are sometimes negotiated. The most common are **1/3–2/3** and **70/30 crop-share**. In the 1/3–2/3 lease arrangement, the landowner shares in some of the purchased inputs but only to the point the landowners contributions works out to a third of the total fixed and variable costs.

While rare, a 70/30 split (or something close to this ratio) is sometimes used. In these cases, the landowner does not pay for any purchased inputs (except crop drying cost for the landowners share). While this lease resembles a cash lease in that, the landowner does not pay any of the production expenses, this lease is still considered a crop-share lease by the USDA farm service agency and, therefore, the farm bill payment is split between landowner and tenant.

**Table 1. Farm diesel is over three times the price it was five years ago.**

Year	FARM DELIVERED OFF-ROAD DIESEL						Five Year Change	
	2003	2004	2005	2006	2007	2008		
Price/gal	\$0.90	\$1.30	\$1.65	\$2.20	\$2.25	\$3.00	2008/2003	333%
\$ Increase		\$0.40	\$0.35	\$0.55	\$0.05	\$0.75	Total Increase	\$2.10
Yr to yr % increase		44%	27%	33%	2%	33%		

## Biosolids Improves Soil and Cuts Production Costs: Workshop March 3

Given the high cost of N-fertilizers, consider biosolids as a way to reduce your out-of-pocket fertilizer costs. Using it will improve poor soil and increase yields. This material is high in organic matter and contains all the nutrients crops need to grow. Lincoln's biosolids is applied to row crops not consumed directly by humans. Field corn and soybeans are the most common crops fertilized by Lincoln's biosolids.



Cooperators must be able to apply the materials in a timely way or hire someone to custom apply biosolids. To be considered for 2008 delivery, sign up for biosolids before March 15. Because of the high cost of N-fertilizer, there is more demand for biosolids than ever before.

To learn more about the benefits of using biosolids, come to an educational workshop, Lincoln's Biosolids Program, on Monday, March 3, 3:45–8:30 p.m.

At this workshop, you will learn biosolids will:

- reduce fertilizer costs and increase yields
- improves soil tilth, especially on poor or eroded soil
- add valuable organic matter to the soil

Attendees will also learn how wastewater is processed and made safe for application and how regulations determine application rates and locations where biosolids can be applied.

Interested persons will meet at 3:45 p.m. at the Lancaster Extension Education Center, 444 Cherrycreek Road, Lincoln. We will travel to the Theresa Street Wastewater Facility for a tour of the facility and return to the extension center for an educational program at 5:30 p.m.

Please pre-register by Feb. 29 with Karen Wedding at 441-7180. If you have any additional questions about the biosolids program, call and ask for Barb Ogg or Dave Smith.

## Chemigation Training and Testing, March 6

A Chemigation training and testing session will be held on Thursday, March 6 beginning at 1 p.m. at the Lancaster Extension Education Center, 444 Cherrycreek Road, Lincoln. This session meets the requirements for initial certification of chemigators and recertification of chemigators whose certification expires in 2008. The training fee for initial chemigators is \$20 and includes the Chemigation notebook. The fee for recertification is \$15. If you need a replacement Chemigation notebook, it can be purchased for \$5. Studying the information contained in the notebook prior to the training session will increase the likelihood of passing the exam. You can obtain a notebook at the extension office by pre-registering for the training session and paying the training fee.

## Pioneer Farm Family Award Applications Due May 1

The Knights of Ak-Sar-Ben and the Nebraska Association of Fair Managers will recognize Nebraska Pioneer Farm Families at the Lancaster County Fair. Titled “Nebraska Pioneer Farm Family Award,” local recognition requires the land of a family in Lancaster County must have been owned by some member of the family for a century or more.

Applications for this year's recognition are due no later than May 1. Applications can be obtained by contacting Deanna Karmazin at dkarmazin2@unl.edu or 441-7180.