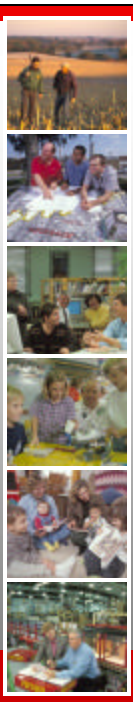
Sharemilking in the Midwest



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Sharemilking in the Midwest—Publication A3670

University of Wisconsin-Extension

Sharemilking is a contractual arrangement between:

Landlord → Tenant

Lessor →Lessee

Employer → Employee

Or simply: OWNER → SHAREMILKER

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Sharemilking Goals:

The overall goal is to build career bridges for beginning, mid-career and retiring producers. Sharemilking arrangements can provide management expertise, economic incentives and a systematic method of asset acquisition for new entrants. On the other hand, sharemilking can provide established sharemilkers and owners with secure strategies to modify workload, phase-in retirement and exit dairying.

"Sharemilking is a vital cog to our (New Zealand) dairy industry and it would be very difficult, if not impossible, for young farmers who are not farmers sons, to achieve farm ownership without the benefit of a few years in this form of occupation. Not only does sharemilking provide a springboard (from working for a labor rate or percentage wage) directly into farm ownership, it also allows farm owners to semi-retire gracefully.

Ralph du Faur, New Zealand dairy farm management author

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Sharemilker Preparation and Career Paths

1. Beginning Farmer Courses
2. Pasture Walks and Farmer-to-Farmer Networking
3. Apprenticeship Experiences

Locating Sharemilker Positions:

1. Good Luck

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Sharemilking Agreements:

Properly signed and executed is a legal document that binds both OWNER and SHAREMILKER to their obligations in the provisions of the agreement.

• In the interest of both parties, a well designed and fair agreement is an investment to preclude misunderstandings.

The basis of all good arrangements between a sharefarmer and owner is a mutual trust and an understanding of each other's responsibilities with incentive to develop the total enterprise. *United Dairy Farmers of Victoria, Australia*

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Most OWNERS and SHAREMILKERS desire:

• Agreement economically sound and equitable to both parties

• Attaining the maximum economic efficiency in resource use

• Allocate returns based on respective contributions

Meaning:

• Agreement lends itself to letting whole farm achieve its maximum income potential while still representing individual parties to the lease

• Distributive equity contributes to economic efficiency

Negotiation plays a role

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What's Fair?

- Custom rates can be a general guide but lots of variation among farms in land, labor and capital
- Rental rates fail to fully take into account productivity and contributions of OWNERS and SHAREMILKERS
- General principle is that each party should share in the returns of the farm business in the same proportions that they share in the costs.
- Thus, use the SHAREMILK spreadsheet from ISU EXTENSION
- Determine FIXED costs of Land, Labor and Capital—DIRTI 5
- Fixed contributions determine variable cost/income divisions

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Drawing Up and Agreement:

- Identify people and farm
- Terms of agreement, i.e. begin, end, extraordinary circumstances, termination notices and penalties
- Who provides and repairs what?
- How are incomes/expenses shared and method of payment
- Dealing with disputes and/or arbitration
- Taxation – seek expert advice for tax avoidance, not evasion
- Make sure it is signed and dated
- It's main goal is to prevent misunderstandings and improve communication among all parties involved.

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Sharemilk 2.0

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Herd Size	75	cows	Milk/Cow	17500	lbs/year	Milk price	$12.00	cwt

Fixed Costs	Value	Charge	Owner	%of Total	Sharemilker	%of Total
LAND	$123,000					
Interest		10.00%	$12,300	100.0%	$0	0.0%
Property Tax	$5,000		$5,000	100.0%	$0	0.0%
Insurance	$1,500		$1,500	100.0%	$0	0.0%
BUILDINGS	$65,000					
Depreciation		6.00%	$3,900	100.0%	$0	0.0%
Interest		10.00%	$6,500	100.0%	$0	0.0%
Repair, Tax, Insurance		3.50%	$2,275	100.0%	$0	0.0%
LIVESTOCK	$82,500					
Interest		10.00%	$4,125	50.0%	$4,125	50.0%
Insurance		0.50%	$206	50.0%	$206	50.0%
MACHINERY	$40,000					
Interest		10.00%	$3,000	75.0%	$1,000	25.0%
Depreciation		12.00%	$3,600	75.0%	$1,200	25.0%
Repair, Insurance		6.00%	$1,800	75.0%	$600	25.0%
LABOR	$25,000		$0	0.0%	$25,000	100.0%
MGT, %of gross income+A58	$10,034	6.00%	$5,017	50.0%	$5,017	50.0%
Total Fixed Costs	$86,372		$49,223	57.0%	$37,148	43.0%

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Variable Costs					
Veterinary & Medicine	$3,000	$1,650	55.0%	$1,350	45.0%
Farm Supplies	$4,000	$2,200	55.0%	$1,800	45.0%
Breeding Fees	$2,000	$1,100	55.0%	$900	45.0%
Purchased Feeds	$32,000	$17,600	55.0%	$14,400	45.0%
Crop Expenses	$1,535	$844	55.0%	$691	45.0%
Fuel, Oil and Gas	$600	$330	55.0%	$270	45.0%
Utilities	$2,500	$1,375	55.0%	$1,125	45.0%
Labor Hired	$20,675	$11,371	55.0%	$9,304	45.0%
Rent, Lease & Hire	$13,000	$7,150	55.0%	$5,850	45.0%
Other Expenses	$13,650	$7,508	55.0%	$6,143	45.0%
Total Variable Costs	$92,960	$51,128	55.0%	$41,832	45.0%
Total Contributions	$179,332	$100,351	56.0%	$78,980	44.0%
Farm Incomes					
Milk Sales	$157,500	$86,625	55.0%	$70,875	45.0%
Cull Cow Sales	$6,600	$3,630	55.0%	$2,970	45.0%
Calf Sales	$2,531	$1,392	55.0%	$1,139	45.0%
Gvt. Programs	$600	$330	55.0%	$270	45.0%
Crop Sales	$5	$3	55.0%	$2	45.0%
Other Income	$1	$1	55.0%	$0	45.0%
Gross Income	$167,237	$91,980	55.0%	$75,257	45.0%

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