

Cow-Share Leasing

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Ownership and operation of assets have a long history of not being the responsibility of an individual. While most farmers find ownership and operation a requirement for some assets, others assets like land are commonly rented or leased. Cows, like other breeding animals, require a high level of care, and are not commonly lumped into the leaseable asset category. This paper, and the related resources, will inform one to the risks and rewards of cow-share leasing.

Questions

There are several issues that need to be resolved prior to entering into an agreement. Cow-share leases are business relationships that require a significant level of trust. This trust can get a significant jump-start with clear communication on relevant issues between the parties. The issues will become more clear and the solutions more appropriate as the relationship matures.

1. Who will manage the operation? Management of a breeding herd is more complicated than a commodity cropping operation, and requires discipline. Decisions related to supplemental feeding, breeding, and sales significantly affect profitability.
2. Is the business venture advantageous to both parties? Business goals should be identified and measures should be in place. Profitability is important, but contrary to the assumptions of many maximizing profitability is rarely the primary goal.
3. Will the agreement encourage the most effective or profitable use of land, labor, management, and capital? An agreement may take the form of a multiple-year contract with annual or more frequent evaluation internally and externally.
4. What records are necessary to measure accomplishment of goals? The records depend on the resources parties bring to the table and the form of lease, and the common goals. Third party reviews can add a beneficial level of objectivity in helping the parties identify appropriate achievement of goals.

Tenant's Perspective

Tenants in cow-share leases do not fit any specific age or occupation restrictions. A tenant may be a beginning farmer, a neighboring farmer, a person who works in town and wants to maintain a farming presence, or they could be someone specializing beef systems. Significant variance in individual situations and local customs mean that the table below may not fit your opportunity.

Table 1. Common Advantages and Disadvantages for Cow-share Lease Tenants

Advantages

- Making use of working capital without going into debt for breeding stock
- Increasing labor efficiency if the operator is underemployed

Disadvantages

- Record keeping responsibilities will need to be met
- Payment of bills and other transactions will require capital and management skills

- Sharing risk of the operation with the owner
- Getting started in livestock operation
- Increasing volume of business
- May be negotiating and operating from a disadvantaged position
- Variability in annual returns may exceed capacity

Owner’s Perspective

Like tenants, owners in cow-share leases do not fit any specific age or occupation restrictions. An owner could be a retiring farmer, a neighboring farmer, a person who works in town and wants to maintain a farming presence, or they could be an individual or group specializing in beef systems. Depending on the age and occupation of the owner(s), increased emphasis may be placed on local customs, profitability, or optimizing tax management opportunities.

Table 2. Common Advantages and Disadvantages for Cow-share Lease Owners

Advantages	Disadvantages
<ul style="list-style-type: none"> • Increasing flexibility with regards to income tax and social security • Providing a means of transferring ownership over time • Allowing owner to maintain a breeding herd • Providing a source of rental income 	<ul style="list-style-type: none"> • Social security implications regarding material participation • Requirement of operating capital • Variability in annual income • Shared decision-making and risk

Determining Relevant Costs

An important thing to remember about determining costs is that the price paid for an input and the level of use varies across operations. Actual farm records are the best documents to refer to. Standard budget worksheets can be used to benchmark those costs and facilitate the discussion of price and levels of use if they become a source of conflict. Spreadsheets are available that can help parties to quickly estimate costs evaluate the potential for profitability targets to be met.

Costs can be evaluated on a herd or individual cow basis. For ease of calculation and benchmarking it is more advantageous to use the cow as a unit of evaluation. The cow unit includes the cow, her calf, her share of the bull, and her share of a replacement heifer when the replacements are raised within the lease.

Table 3. Relevant Costs

Feed	Fixed Expenses
1 Pasture	12 Interest on Cows
2 Salt & Mineral	13 Interest on Bulls
3 Hay	*14 Depreciation (Cows)
4 Residue Grazing	*15 Depreciation (Bulls)
5 Corn	*16 Death Loss (Breeding Stock)

6 Supplement

17 Buildings, Fences & Equipment

18 Taxes & Insurance

Other Cash Expenses

7 Vet & Health Supplies

8 Utilities

9 Fuel, Equip & Repairs

10 Marketing

11 Interest on feed & cash exp.

* if heifers are raised

Labor and Management

19 Labor

20 Management Charge

The Agreement

A good agreement is equitable, fair, and simple. Profitability is nice too. The agreement provides a way for the parties to pool their resources in a business venture. While multiple year arrangements are encouraged to reflect the life cycle of the herd being leased, annual reviews are encouraged to provide adjustments to the lease agreement as needed.

Reasons for having a written agreement

1. Developing statements for the agreement encourages detailed thought and joint decisions.
2. A written agreement serves as a reminder of the terms agreed upon.
3. Successors will find the agreement valuable in determining the nature of the relationship.

Developing a lease agreement is a “give and take” situation. Reaching consensus on the resources each party has available and the prices for those resources is often the easy part of the discussion. The difficult part seems to be listening to the other party to find the reason they are interested in the lease and the resources they are willing to or desire to provide. Following local custom in cow-share leases may be quite profitable for one or the other parties. However, one should not assume that local customs automatically fit their opportunity. The responsibility involved in being on either side of a cow-share lease arrangement is significant and should not be taken lightly.

Maintaining a lease agreement can be simple if the original agreement fit both parties’ short and intermediate term goals. If the original agreement was tilted in favor of one or the other parties, the tilt becomes difficult to maintain in periods of high or low profitability. For some clients, the optimum cow-share lease is one that does not change for 10 years. For other clients, the optimum cow-share lease changes each year to reflect increased ownership stake on the part of the younger party. Emphasis has been put on the use of a cow-share lease as a transition tool. That will be a focus area of the author’s 4-State Beef Conference presentation, and the author’s cow-share page.

This paper relies heavily upon the following additional resources:

- www.oznet.ksu.edu/library/agec2/mf2163.pdf Beef Cow Leasing Arrangements (MF 2163)
- Livestock-Share Rental Arrangements For Your Farm (NCR 107)

- www.extension.iastate.edu/Publications/FM1474D.pdf Two Generation Farming: Transferring Machinery and Livestock
- www.iowabeefcenter.org/Publications/spa99.pdf ISU-IRM-SPA - 1999 State Summary
- www.extension.iastate.edu/Publications/FM1815.pdf Livestock Enterprise Budgets for Iowa – 2000
- www.oznet.ksu.edu/library/agec2/mf266.pdf Beef Cow/Calf Enterprise (MF266)

- www.iowabeefcenter.org/ Iowa Beef Center
- www.extension.iastate.edu/feci Farm Economics: Current Issues
- www.extension.iastate.edu/feci/cow-share Author's cow-share page