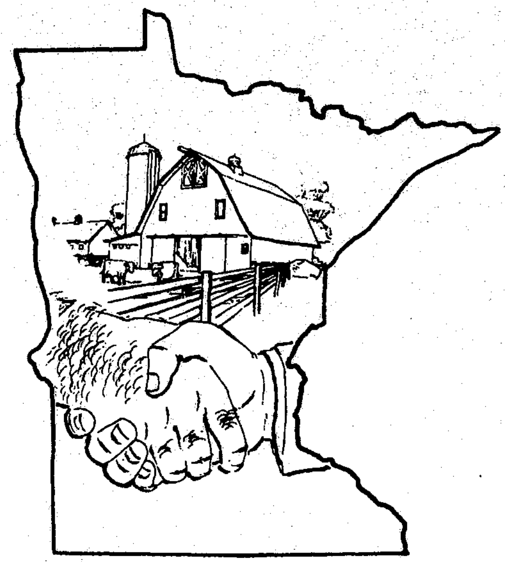
FARM MANAGEMENT SERIES FM-660
MARCH 1975

Land Rental Arrangements in Minnesota



Survey Report of Current Status, Implications, Guidelines and Procedures

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I. Introduction

Continuation of a strong agriculture in many areas of Minnesota depends to a marked degree upon good relationships between landlords and tenants. In 1969, about 45 percent of the state's farmers rented all or part of their farms. Rented land accounted for 31 percent of the farm acreage. In heavy rental areas, such as southwestern Minnesota, almost 60 percent of the farmers rent part or all of their farms, with 40 to 50 percent of the land being rented (see Figure 1).

Over the long-run, a lease agreement must be equitable to all parties. This means each party should annually share expenses proportionate to the income they receive from the assets covered by the lease. An equitable lease is an important factor in making for a profitable farm operation, plus contributing much towards good landlord-tenant relationships. With the recent rapid changes in land values, crop prices and costs and variable crop yields, however, tenants and landlords are finding their leases to be out of date or unsuited to current conditions. It is likely that many of these current uncertainties will be in evidence over the next few years as well.

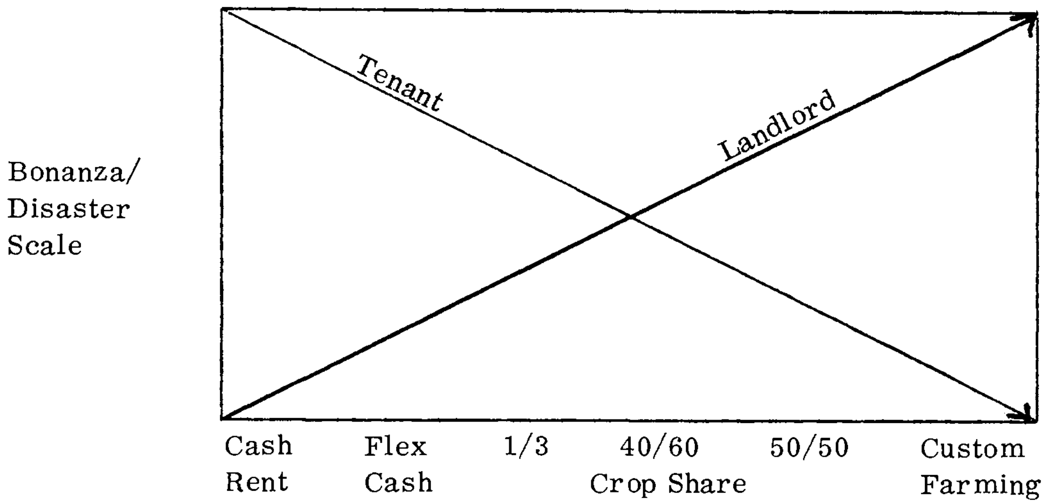
Three adjustment alternatives are typically open: (1) the parties can modify the provisions of a given type of lease to make it more equitable (eg. raise the annual cash rent payment); (2) they can shift to another type of lease (eg. from cash to share rent) or (3) they can seek new rental partners. Conditions are changing rapidly enough so that all three adjustment alternatives are being resorted to in varying degrees.

To be effective in counselling with tenants and landlords as they attempt to make these lease adjustments, information on current rental "custom" or rates in a given area is needed. Guidelines and procedures for determining what is a fair lease under current conditions as well as suggestions as to ways of making lease arrangements as flexible as possible are also needed.

The purpose of this publication is to report on a survey of current cash and crop share rental practices in various areas of Minnesota, and to provide procedures and guidelines for determining what is a fair rental arrangement. Survey information reported herein was gathered in the Fall of 1974. Professional managers, selected adult vocational agricultural instructors, county extension agents and agribusiness personnel were interviewed, using both mail and personal interview techniques. 1/

To provide a framework for a discussion of rental alternatives in the current setting, the following chart should prove helpful. Cash rent and custom farming are at opposite ends of the rental arrangements spectrum, with share rents occupying a sizeable middle ground. Cash rent increases the potential risk and profit position of the tenant. Custom farming does the same for the landlord.

1/ Special thanks are extended to the Professional Manager's Committee of the Minnesota Farm Managers and Rural Appraisers Association for encouraging the author to do the study and to the survey respondents for their excellent cooperation.



During periods of relatively stable yield, price and cost conditions, such as the 1950's and 60's, a polarization tends to take place. Tenants seek the greater profit potential of cash rent; while many landlords look longingly at custom farming--some even try it. A gradual erosion in the numbers of crop share arrangements tends to take place. Longer term leases are often negotiated. Then comes a bonanza year like 1973! Landlords with cash leases clamor for a piece of the action which they had previously, in many cases, gladly given up. Then along comes 1974 with its great price and yield variability.

Such happenings have resulted in an unsettled rental market. Because of this, the author expects that in the next few years we will have less landlord-tenant polarization with a gradual shifting back to crop share arrangements in many areas. The remainder of this report will take a detailed look at each of these rental alternatives in the following order:

1. Cash Rental Arrangements: Current Status, Procedures and Guidelines
2. The Flexible Cash Lease as an Alternative
3. Crop Share Arrangements: Current Status, Procedures and Guidelines
4. Custom Farming and Other Survey Findings

II. Cash Rental Arrangements: Current Status, Procedures, Guidelines

Survey respondents' estimates of cash rental rates per tillable acre of high and low value land for 1975 are shown in Figure 2. Considerable variation in responses can be noted within a given area. This is not surprising since cash rental rates have been rising rapidly (approximately 60 to 100 percent since 1973) and are, in fact, quite unsettled within any given area.

Estimated rental rates for so-called high value land in 1975 ranged from over $80 per acre in the south - south central part of the state to less than $20 per acre in the cut-over areas of the north - northeast. This compares with a $40 to $10 spread in rates just two years ago.

Like land values, rental rates are highly influenced by the degree of risk associated with the soils and climate of an area as well as the adaptability of the area to large crop farming operations. The $80 rent area is a low-risk, crop-oriented region comprised of very productive soils and a stable climate. The "bulges" in the $60, $40 and $20 iso-rent lines (Figure 2) toward the northwest tends to suggest that expected profits in crop-farming-oriented areas are currently high enough to partially offset the greater weather risks associated with that area. Rates in livestock-oriented areas have, in contrast, remained somewhat depressed (note the southeast area).

Estimated cash rental rates on so-called low value tillable land for 1975 ranged from about $50 per acre in the south - south central area to less than $10 per acre in the northeast. By superimposing rents of $50, $30, $20 and $10 on the $80, $60, $40 and $20 lines in Figure 2, one would have a fairly good estimate of low value land rents by areas. Rent on similar land in 1973 ranged from about $30 to $5 to $7 per tillable acre.

<u>What is a fair cash rent?</u> There are at least three ways of estimating cash rent for farm land. We shall describe and discuss each of these briefly, recognizing that there is no easy way of arriving at a fair cash rent under conditions as uncertain as at present.

1. <u>Market approach</u> or the going cash rent in the area. The problem with this approach at present is in determining going rates in an area. With rents doubling in two years, considerable variation in rents for a given quality of farm can exist in an area.

2. <u>Cost or desired return approach</u>. With this method you start with an interest return on a safe investment (say 6%). To this you add taxes, insurance and possibly an amount for depreciation, repair and management of the property (see Form A, page 14).

   Normally, 7 to 8 percent of market value is a typical charge. We see no reason to change this percentage figure since part of the landlord's return is accruing in the form of inflated land values. The key problem at this time is in deciding on the market value of land. Our suggestion is to use a conservative market value for that quality of land and size of unit. The landlord must also keep in mind that the tenant is operating under higher costs and greater price risks than normal.

3. <u>Income approach</u>. Two variations of this approach can be used. With the first, the tenant determines the maximum rent he can afford to pay after covering all costs except land. Under present conditions he should calculate this under alternative price, yield and cost assumptions to determine the range of rents he could afford to pay (see Form B-1, page 14). The second approach involves calculation of the break-even cash rental rate compared with crop share. Since many tenants and landlords are considering a shift to crop share, this can be a useful approach (see Form B-2, page 14).

   Both of these income approaches are more complicated than the market or desired return approach. Because of price, yield and cost uncertainty, they require considerable judgement. However, they will likely provide tenants and landlords with a sounder basis for setting cash rents.

After one or more of these methods has been considered, the rental price must be established by negotiation. Availability of land and tenants, yield potentials, prices, costs, etc., will affect the bargaining position of the tenant and landlord. Under current conditions, cash leases should be kept on an annual renewal basis. Landlords should not over exercise their current strong bargaining position as tenants' risks are quite high. Tenants willing to pay exorbitant rental rates should be checked out carefully to insure that payment will be forthcoming should economic conditions deteriorate.

III. The Flexible Cash Lease As An Alternative

Typically, next year's cash rental rate is based on this year's commodity prices or crop profitability. (Many cash leases are firmed up in August - October of the previous year or in late winter of a given crop year.) In periods of rapidly rising commodity prices, landlords share only partially and belatedly in any resultant bonanza (i.e., 1973). In periods of rapidly inflating costs, dropping commodity prices, or because of locally poor weather, the tenant, having assumed all the risks, can be caught in a financial squeeze. Because of the current increased magnitude of this bonanza/disaster situation, the flexible or variable cash lease is being looked upon as one means of landlords and tenants sharing the increased risks and profits--short of a return to the share rental arrangement.

Respondents in the southern part of the state, particularly in the southeast and south central areas, expressed considerable interest in the flexible cash lease. Little interest in this approach was evidenced in the remainder of the state. This was either because rental rates had not risen high enough to be of concern or handling the yield variation problem seemed insurmountable. The extent of actual use of the arrangements, however, appears to be quite limited in all areas. One professional manager thought that he would have 80 percent of his cash rent farms using this approach in 1975. This was by far the exception.

In terms of applicability and eventual use, it appears that the flexible cash lease will be used almost exclusively in areas where yield variation is not a problem. This suggests that it will likely be used to its greatest extent in the "high rent district" of south central and southeastern Minnesota where adjustments for price variability are of greatest concern. In areas where yield variability is of like or even greater concern than price, the adjustment will likely result in a reduction in cash rental rates or a shift to a share arrangement.

Under current conditions, prices, yields and costs are changing rapidly. Therefore, the ideal flexible arrangement would seem to be one that could reflect changes in all three. However, it appears that most of the flexible arrangements presently in use call for adjustments in price only. The following is a brief resume' of alternative flexible arrangements that might be considered.

The most common price adjustment approach now in use involves establishment of a base rent expressed in bushels per acre (say 30 bushels of corn and 10 bushels of beans). The base bushelage, of course, would vary by areas. In the southwest, 25 bushels of corn and 9 bushels of beans was mentioned; in the south central, 30 - 35 bushels of corn and 10 - 12 bushels of beans. These base bushelage amounts would then be multiplied times the market price on agreed upon market dates or the actual grain delivered to the landlord. For example:

Approach #1	Base rent in bushels	x	Actual corn price		
	30	x	$3.00	=	$90 adjusted cash rent
	30	x	$1.50	=	$45 adjusted cash rent

A second price adjustment alternative involves division of the effect of price changes equally between renter and landowner. (The first approach divided price change in same proportion as base rent bushels were of total base yield (eg. 30/100 = 30%).

Approach #2 $\quad$ Base rent ($) $\pm \dfrac{\text{Total base yield (actual price - base price)}}{2}$

$$\$60 \pm \frac{100\ (\$3 - \$2)}{2} = 60 + \frac{100}{2} = \$110$$

$$\$60 \pm \frac{100\ (\$1.50 - \$2.00)}{2} = 60 - \frac{50}{2} = \$35$$

A third alternative adjusts for one-half the price change but does so only on the base rent yield portion not the total base yield as noted in example 2.

Approach #3 $\quad$ Base rent ($) $\pm$ Base rent bushels $\dfrac{\text{(actual price - base price)}}{2}$

$$\$60 \pm 30\ \frac{(\$3 - \$2)}{2} = 60 + 15 = \$75$$

$$\$60 \pm 30\ \frac{(\$1.50 - \$2.00)}{2} = 60 - 7.50 = \$52.50$$

Obviously, approach #1 is the simplest, approach #2 is most risky from the landlord's point of view, while approach #3 is least risky. The key here is to decide on the approach to be used and make sure necessary base yields and actual price periods and markets are specified in the lease before hand. Likewise, the price of some other crop can be used to provide rent flexibility. Iowa State has a flexible lease approach based on average of the index of farm product price.

The most common yield and price adjuster reported in the survey was the use of a fixed percentage of gross income or yield, such as 30 percent. (See example below.) Another approach suggested was a base rent plus, say, 10 percent of the crop.

Base yield as % of total	x	actual yield	x	corn price		
30%*	x	100	x	$2.00	=	$60
30%	x	120	x	$3.00	=	$120
30%	x	60	x	$3.00	=	$54

$* \dfrac{30}{100} = 30$

The approach used to arrive at the yield percent in the above example would, in fact, be built around some normalized cash rent figure as a percent of normal gross. Richards and Luening[1/] at Wisconsin suggest that a fairer way would be to project the respective landlord and tenant contributions for a given crop and use the landlord's percentage contribution as the percentage figure. This is a more complex but probably a fairer approach.

Under present conditions, prices, yields and costs tend to vary. Mervin Freeman, Area Agent at Rochester, has developed a formula for flexing all three. Richards and Luening, at Wisconsin, have proposed a sliding scale approach.[2/] Here the landlord is guaranteed a minimum cash rent. Landlord's percentage of gross income declines beyond a given level to compensate.

In summary, the flexible cash lease is designed to permit within a given year a greater sharing in bonanzas and disasters by tenants and landlords than can be accomplished with the cash lease. The approach used should be simple. If minimum cash rents are set, maximums should also be set. In higher risk cropping areas adjustments for yield should definitely be included. However, going with a conservative cash rent or crop share arrangement would likely prove more desirable in such areas. Whatever arrangement you decide on, get it in writing as to how you are going to settle up.

IV. Crop Share Arrangements: Current Status, Procedures and Guidelines

With the present high degree of uncertainty, there appears to be a definite shifting back toward greater use of the crop share lease. In this section we shall first review survey results relative to the kinds of crop share arrangements prevalent in various areas of the state. We shall then outline guidelines and procedures for use in establishing crop share arrangements for a given farm situation.

Figure 3 shows the percentages of various types of crop share arrangements as estimated by survey respondents. The south central part of the state is dominated by 50/50 crop share arrangements. In this area tenants and landlords share seed, fertilizer and chemical expenses and the resultant crop 50/50. The landlord may pay some harvest costs but the trend is toward no landlord contribution toward harvest costs--thus, the NHC designation on the map. The landlord's share of the crop is either hauled to the elevator wet, or the tenant dries the corn charging the landlord a rate ranging from the cost of fuel and electricity to one equal to custom drying costs in town.

Moving to the southeast, we find the 50/50 crop share dominating again, though in this area the landlord generally pays a portion of the cost of harvest (WHC). They also pay going custom rate charges for the drying of their share of the crop.

1/ Richards, R.P. and R.A. Luening, Methods of Calculating Flexible Cash Rent For Land, Managing the Farm, Vol. VI, No. 12, September, 1974.

2/ Ibid.

In the southwest we have a transition zone between the 40/60 and 50/50 arrangement. A fairly common arrangement in the area is a so-called 50 corn/40 bean arrangement--reflecting the transition nature of the area. With this arrangement the landlord typically pays 50 percent of the seed, fertilizer and chemical expense on corn and only fertilizer and chemical expense on beans. This reduced share on beans (and small grains) is designed to compensate the tenant for harvesting costs, of which the landlord pays none. The landlord's share is either delivered wet, or the tenant is paid varying rates for drying the crop.

Moving just north of this south - southwest area, one finds a major area dominated by the 40/60 type share arrangements. With this arrangement the landlord generally pays no seed or harvest costs. (However, on some picker deals the landlord may still pay for shelling and hauling.) The landlord's share is delivered wet to the elevator or crib or he pays the tenant for drying. This rate may vary from covering gas and electric to going custom drying rates.

The remainder of the study area to the north and west is basically a 1/3 share area. However, shares on some of the poorer land may be on a 1/4 share. Contrastingly, portions of the southern Red River Valley are moving toward a 40/60 share. With the 1/3 share arrangement the landlord typically pays 1/3 of the fertilizer and chemical costs, but no seed costs. The landlord's involvement in harvest costs varies by crop and area.

Because of the current strong bargaining position of the landlord, two types of shifts in crop share arrangements are taking place:

1. Shifting within a given share percentage, tenants are being asked to pay more of the variable costs. For example, the landlord may no longer pay certain harvest costs (shelling) or may ask the tenant to pay for all the seed, etc.

2. Shifting from one local custom share percentage to another. In areas where 1/3 / 2/3 was common, some leases are being shifted to 40/60; where 40/60 has been common, leases are shifting toward 50/50.

This shifting within and between the share custom of the area raises some concerns from an economic point of view. First, is it really fair and, second, what is it doing to the tenant's incentive to use good management practices?

In order to assure that both expenses and income from a given farm business are shared equitably, the contributions of the two parties need to be appraised carefully. Forms C and D are designed for use in making such an appraisal.

In such an appraisal, items contributed by each party are listed and a fair annual value is placed on them. Adjustments may then be made by one of two methods. The first method fixes the share of income of each party (such as 50/50) and then shifts expenses or capital contributions from one party to the other until each contributes approximately his proportionate share of the total cost (Form C). The second method accepts any proportion in which fixed costs are contributed and divides the income and variable expenses in the same proportion (Form D).

Either approach to the problem assumes that the landlord and the tenant should share the income from the farm in the same proportion as they contribute to the expense of its operation. In both cases, an estimate must be made of the total contributions which both the landlord and tenant expect to make to the farm business. The estimating must be done with caution so that valuations are made on a comparable basis for various items. For example, if conservative valuations are used for labor and management, equally conservative valuations should be placed on land and other capital items.

In summary, we will probably see greater use of the crop share arrangement under current conditions. There will also be adjustments within and between existing crop share arrangements. With current high product prices, there is a premium for good production performance. Therefore, the landlord should not get so carried away with his current strong bargaining position that he causes a tenant to do less than an adequate job with his property. Many good tenants operate land from several landlords. Timeliness and competent management are very critical and, thus, a given crop share landlord should not bargain himself into a disadvantaged position.

Likewise, a landlord should size up tenants carefully and not be too anxious to forsake a good tenant for another who is less known or less competent just to take advantage of an extremely favorable share offer from the latter tenant. Generally, the good tenants of an area are sought out by landlords and do not have to make special or unrealistic concessions to gain control of land, even under present conditions.

V. Custom Farming and Other Survey Findings

Custom farming is at the opposite end of the rental spectrum relative to cash rent. It increases the risk and profit potential of the landlord and, thus, is attractive to those land owners who can and want to assume greater risk for potential gain. Respondents saw very little potential for this type of arrangement for two reasons: (1) lack of timely operations by custom operators and (2) poor performance or execution by custom operators. Obviously, the most competent operators will likely be those wanting to cash rent land. They will also want to do their own land first. Developing appropriate incentive programs appears to be a key, if custom farming is to develop at all.

Several other questions were raised in the survey, such as the relative importance of various types of lease arrangements and going pasture and building rates. The following is a brief summary of these findings, which for the most part were quite sketchy. A survey of individual tenants and landlords would be necessary to deal adequately with some of these questions.

Very little good current information is available regarding the relative importance of cash, crop share and livestock share leases. The census of 1964 reported the number of full tenant farms in each of these categories. At that time, crop share leases were the most important in the area of the state generally encompassed by counties in Figure 1 with 31 percent or more of the rented land. The cash rent lease predominated in the under 20 percent areas. In the southeast area, and a four-county area of Douglas, Becker, Todd and Otter Tail, all three types of leases were quite common. Over the past ten years there appears to have been a general shift toward cash rent. Also, the part-owner farms have become increasingly important and would likely involve more cash rent land.

The respondents to the survey were asked to estimate the percentage of farms in their area that were rented under various lease arrangements. This apparently was a difficult item to estimate as the responses in a given area were quite variable. Estimates by professional farm managers tended to indicate a higher percentage of share arrangements than did other respondents. However, it does appear that cash rent has increased in importance in most areas of the state. In the southwest, crop share is still the dominant arrangement, while in the south central area, cash rent apparently accounts for 80 - 90 percent of the acreage. The southeast is relatively heavy in cash rent (60 - 80 percent), as is the valley (60 - 70 percent). Around the Twin Cities share rent appears to dominate. Livestock share arrangements are becoming quite few in number in most areas with a likely further decline in prospect.

Response to a question regarding a trend in each type of lease, likewise, was quite variable. However, it does appear that the recent rapid rise in cash rental rates has caused a slight reversal in the trend toward cash rent. A shift back to some form of share rent is usually employed, though considerable interest in flexible cash leases was expressed.

Responses to questions relating to cash rental rates on native and rotation pasture were quite sketchy in most cases. This was due, in part, to the fact that in some areas little pasture land exists. However, the survey information on pasture from the southwest was fairly complete and consistent, with native pasture renting for $15 to $20 per acre and rotation in the $25 to $40 range.

House rental rates, though sketchy, varied from about $50 to $60 per month in relatively open country to $100 to $150 in more heavily populated areas. Renting existing outbuildings appeared to be a landlord's nightmare. Since many tenants rented from more than one landlord, a given set of buildings often was a drag on the market. A figure of $600 per year was quoted several times though, obviously, this would vary by the amount and kind of facilities available. Some landlords were trying to get a 10 percent return on the appraised value; some 5 percent of replacement value; some wanted enough to cover taxes, insurance and 1 - 2 percent depreciation; some let the tenant use the facilities if he would cover repair costs. Demolition of outbuildings appeared to be the easiest and least costly route in many areas. However, landlords were concerned about the community reaction to such action. In putting up new facilities, most landlords would consider doing so only if they could get a rent equal to 10 percent of the facility cost.

VI. Summary

Portions of this report were devoted to an analysis of the current status of the land rental market in Minnesota. Figures 2 and 3 show the estimated cash and crop share rates or arrangements for 1975 by areas of the state as reported by professional farm managers and selected adult vo-ag instructors, county agents and agribusiness personnel. In general, the results show that:

1. From a cost of production standpoint, cash rent in 1975 will be up 60 to 100 percent from just two years ago. With crop share arrangements, landlords will be increasing the effective cost of land rental by (a) trying to reduce their non-land contribution within an existing share agreement and/or will be (b) trying to switch to a larger percentage share.

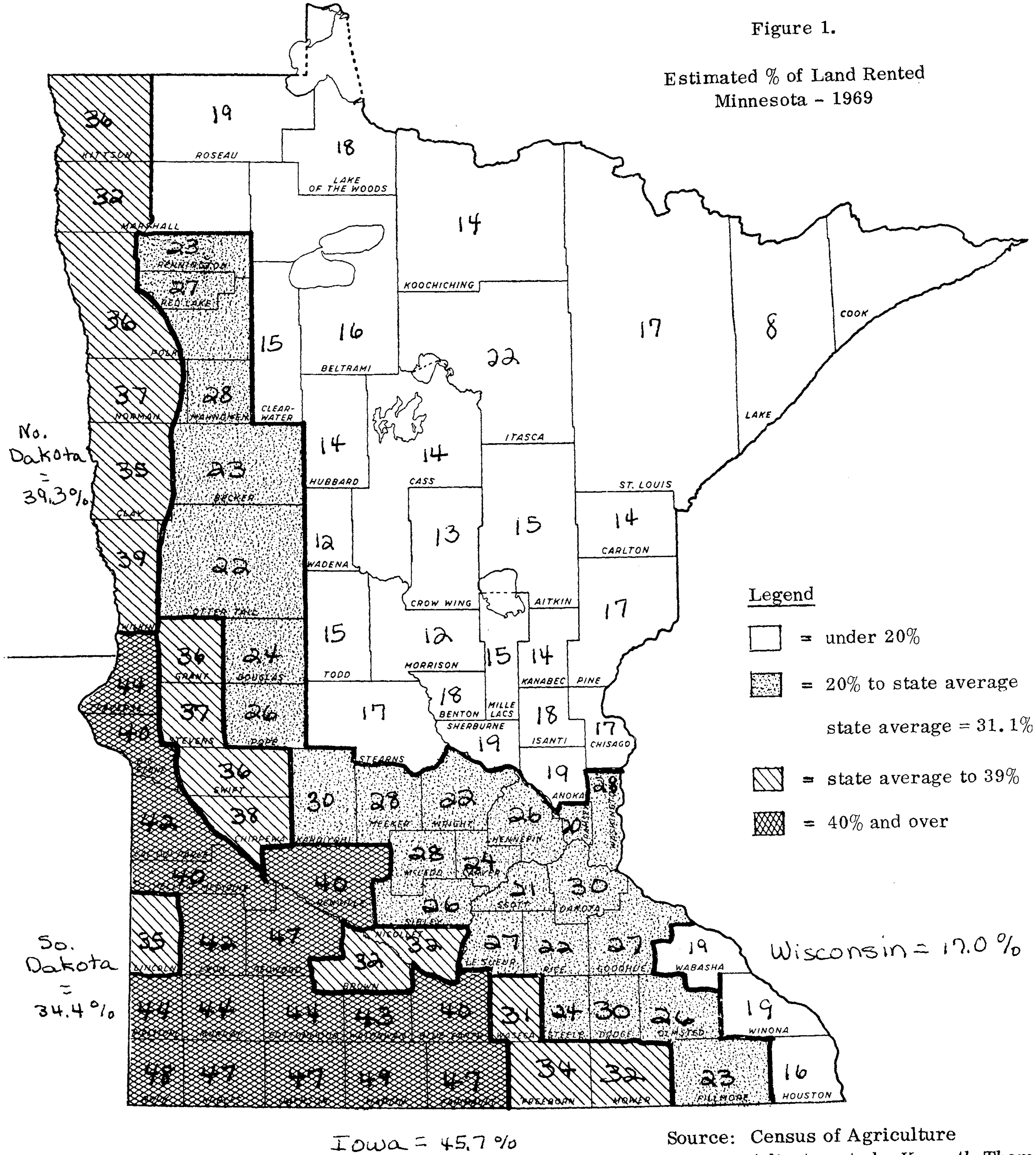
2. Because of increased price, cost and weather risks, many tenants will be attempting to reduce their exposure by shifting from cash rent to less risky arrangements such as flexible cash and share arrangements. Such "insurance" against excessive risk will in effect reduce long-run average profits.

The land rental market has for years been strongly influenced by local custom. Area custom, however, has become a mighty dull and potentially damaging tool in the uncustomary times we are in. Thus, a major thrust of this report was to provide guidelines and procedures for use by individual tenants and landlords in sizing up their situations. The forms at the end of the report should prove helpful in determining what is fair under a given set of conditions. Such an analysis should go far in helping tenants and landlords determine what they are doing and in promoting good relationships.

In conclusion, with increased land values and rapidly changing times, land rental will be a marketing problem that will require increased management attention of the landlord and tenant, as well as those who assist them. Therefore, we will need to increase our efforts in gathering information as to what is going on in the rental market. (What's customary?) We will also need guidelines and procedures for determining what is fair under a given set of conditions. Most importantly, tenants and landlords will have to spend more time in determining what is fair and workable for their situation. Local custom, at best, can only serve as a guide; at its very worst, it may cause tenants and landlords to part company, unnecessarily.

Figure 1.

Estimated % of Land Rented
Minnesota - 1969



Source: Census of Agriculture
Adjustments by Kenneth Thomas

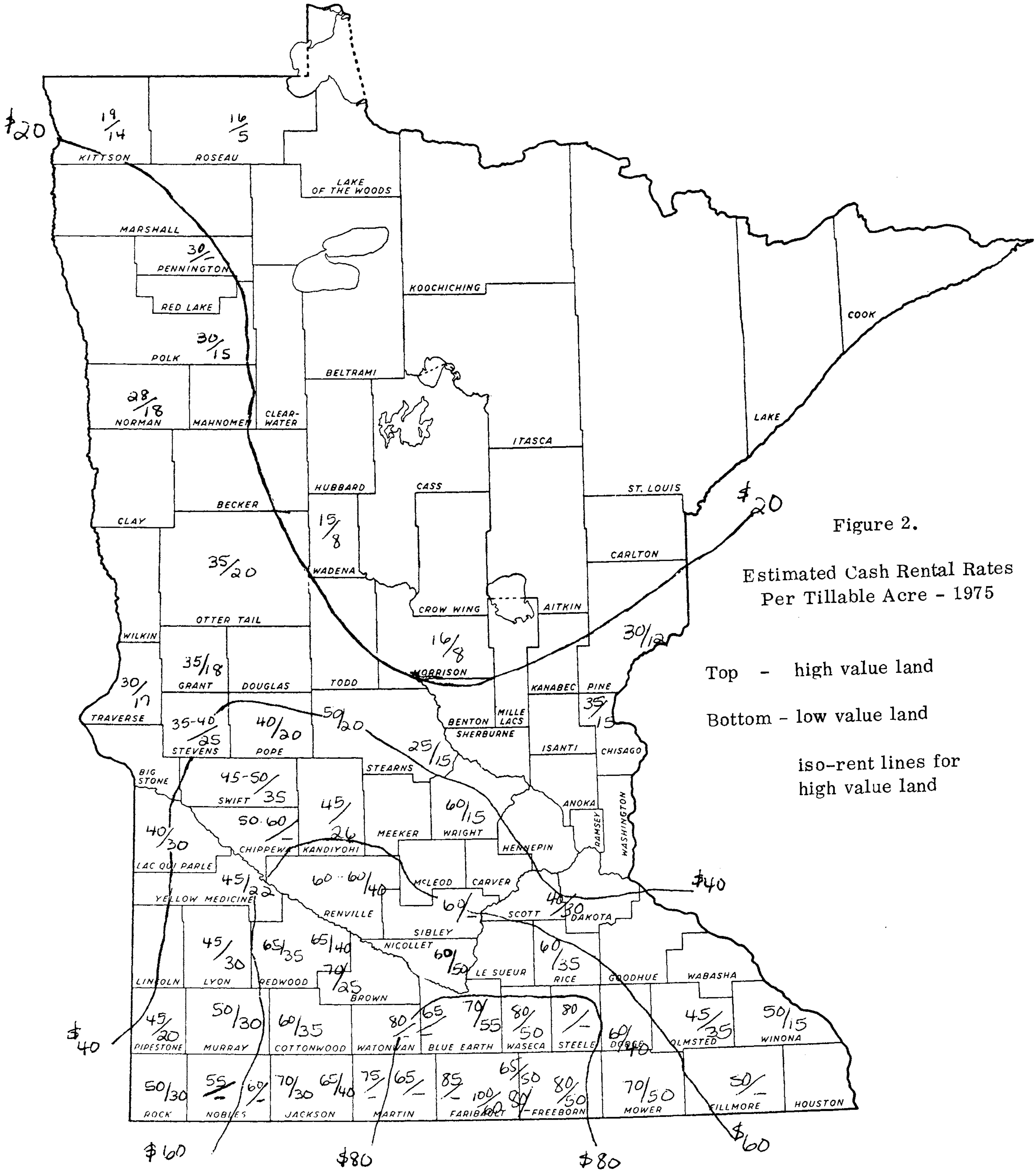


Figure 2.

Estimated Cash Rental Rates Per Tillable Acre - 1975

Top - high value land

Bottom - low value land

iso-rent lines for high value land

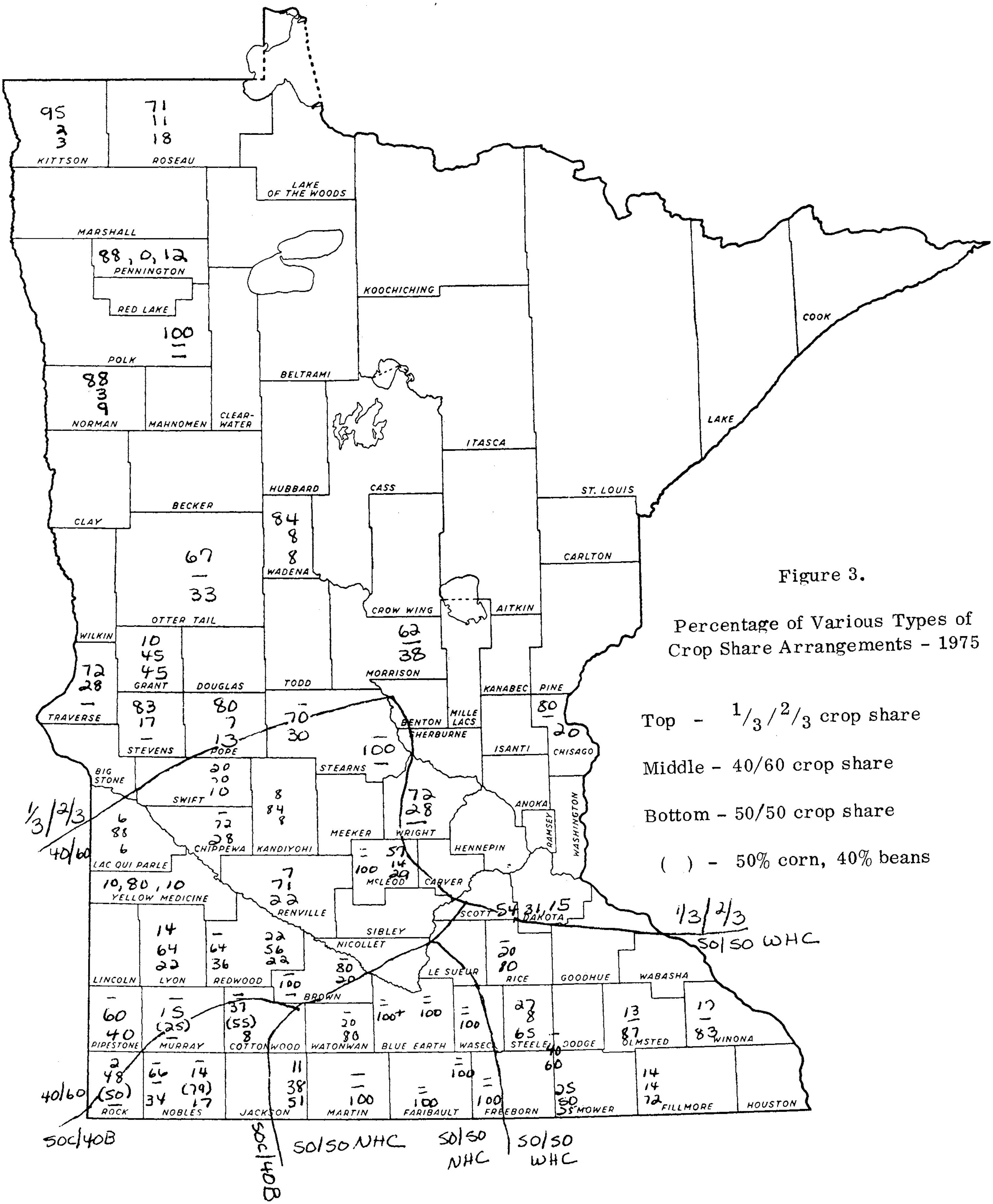


Figure 3.

Percentage of Various Types of Crop Share Arrangements - 1975

Top - $^1/_3/^2/_3$ crop share

Middle - 40/60 crop share

Bottom - 50/50 crop share

( ) - 50% corn, 40% beans

Alternative Procedures for Calculating Cash Rent

Form A. Cost or Desired Return Approach

Item	Price or Cost/Acre	Desired Return	Total/Acre
Land	$____	____%	$____
Taxes	$____	xx	$____
Repair, etc.	$____	xx	$____
		Desired Rent/Acre	$____

Form B-1. Income Approach: Maximum Rent Approach

		Alt. I	Alt. II	Alt. III	Alt. IV
	Yield/Acre	____	____	____	____
	Price	$____	$____	$____	$____
A.	Gross Income	$____	$____	$____	$____
	Production Cost/Acre	____	____	____	____
	Labor Charge/Acre	____	____	____	____
	Management Charge/Acre	____	____	____	____
B.	Sub Total	$____	$____	$____	$____
C.	Residual Return to Land (A - B)	$____	$____	$____	$____

Form B-2. Income Approach: Breakeven - Crop Share Approach

Step #1 - Determine Expected Net Income on Share Basis

	Total	Landlord	Tenant
Gross Income	$____	$____	$____
Production Expenses*	____	____	____
Net	____	____	____

Step #2 - Determine Equivalent Cash Rent

Total Income	$____	
Less Tenant's Production Expenses with Cash Rent	** ____	
Sub Total	____	
Less Tenant's Earnings Under Share Arrangement (above)	____	
Sub Total	$____	$____
Risk Adjustment: -10%	____	
-20%		____
Breakeven Cash Rent	$____	$____

* Excluding interest on land and labor and management charges

** Excluding labor and management charge

Form C. Using Desired Fixed Share of Income as Basis for Determining Contributions of Tenant and Landlord

	Tenant	Landlord
Desired % Share of Crop	______	______
Land $______ x ______% Taxes	______ ______	______ ______
Growing Costs Machinery Fuel Seed Fertilizer Chemicals	 ______ ______ ______ ______ ______	 ______ ______ ______ ______ ______
Harvesting Combining Trucking Drying Equipment Fuel and Electricity Storage + Other Building Rent	 ______ ______ ______ ______ ______	 ______ ______ ______ ______ ______
Labor Family Hired Management	 ______ ______ ______	 ______ ______ ______
Interest on Operating Expense General Overhead	______ ______	______ ______
Total Contributions Each Party % Contributed by Each Party (should equal desired share of crop)	______ ______	______ ______

Form D. Using Fixed Contributions of Tenant and Landlord as a Basis for Dividing Income on a Crop-Share Rented Farm

Contribution	Tenant			Landlord		
	Value	Rate	Value of Annual Contrib.	Value	Rate	Value of Annual Contrib.
LAND						
1. Interest (4-6% of valuation)						
2. Real Estate Tax						
BUILDINGS, WATER SYSTEMS, FENCES AND OTHER PERMANENT IMPROVEMENTS						
3. Depreciation (2-4% of replacement value)						
4. Repair (1-2% of replacement value)						
5. Insurance						
POWER AND MACHINERY a/						
6. Interest (6-8% of new cost plus salvage value ÷ 2)						
7. Depreciation (10-14% of replacement cost less salvage value)						
8. Repair (3% of new cost)						
9. Insurance						
LABOR AND MANAGEMENT						
10. Operator						
11. Family Help						
12. Hired Labor						
13. Management (10% of expected gross)						
14. CASH RENT (paid to landlord by tenant)						
15. Other						
16. TOTAL						
17. % OF FIXED CONTRIBUTIONS BY EACH						
18. Variable Expenses b/						
19. Income b/						

a/ Only that portion which can be attributed to crop production on given farm.
b/ Share in same percentage as fixed contributions figured above.