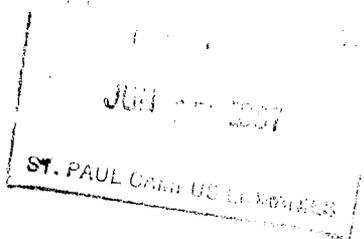


MN 2000 FM-532

LEASING DAIRY COWS

Planning An Equitable Arrangement



	<u>COW OWNER</u>	<u>OPERATOR</u>
<u>Step #1</u>	<u>Example</u>	<u>Example</u>
DETERMINE VALUE OF CONTRIBUTIONS		
Replacements raised by _____ *	owner	
Expected production/cow _____	12,000	
Interest on cow - average value \$1,000 x 8%	\$ 80	
Depreciation per cow: beginning value \$1000		
salvage value 600		
400*		
Divided by normal life of 3½ years 3.5	115	
Risk - estimate chances of death loss*		
2% x 1,000	20	
Labor - 40 to 100 hours x value \$4		\$ 300
Buildings - Feed Storage: invest. of \$400 - \$1,000		
Annual cost (depr., int., rep., & taxes) 10%		75
Equipment - investment of \$300 - \$800/cow		
Annual cost (depr., int., rep., & ins.) 15%		80
Power - (electricity, tractor and truck)		50
Feed**		
<u>Cow Only</u> <u>Cow & Replace.</u>		
Hay equiv. (tons) 2.2 to 3.6 4.0 to 5.5 @ \$40		120
Corn silage (tons) 10 to 6 11.5 to 8.0 @ \$16		130
Corn equiv.(bu.) 40 to 60 50 to 70 @ \$2.35		120
Protein suppl.(#) 250 to 175 375 to 300 @ \$11		22
Mineral and salt		10
Pasture		0
Other cash costs		
Milk handling - 12,000 lbs. x 25¢/cwt.		30
Breeding		15
Health	15	15
Bedding		20
Miscellaneous, cleaning and testing		15
Total Individual Contributions	\$ 230	\$1,002
TOTAL CONTRIBUTIONS	\$1,232	
PERCENT CONTRIBUTED BY EACH	20%	80%
(Share income in same proportion - see next page)		

* In this example, the owner supplied replacements and, thus, received income from cull cow sales and was credited with \$115 of depreciation (difference between original value and salvage value) and \$20 for risk assumption (death loss). If replacements are raised by the operator, the depreciation and death loss are no longer an owner's contribution. The cost of raising replacement heifers would need to be included in the operator's costs. This would increase the operator's contribution. If the arrangement is terminated, the owner would be reimbursed for original cows.

** Feed requirements are for high silage and high hay rations, respectively.

This archival publication may not reflect current scientific knowledge or recommendations.
Current information available from University of Minnesota Extension: <http://www.extension.umn.edu>.



Step #2 - DECIDE ON HOW INCOME IS TO BE SPLIT

Agreement should next be reached as to just how the income from milk and calves will be split. In alternative #1 (below) the operator would keep all the calves. Thus, over a four year period, the owner's herd would be sold off and the operator would own the replaced herd. Here the value of the calf is added to milk sales and then multiplied by the owner's contribution percentage (eg. 15%) to determine the owner's income share.

<u>Alternative #1 - Operator keeps all calves</u>	<u>Example</u>	<u>Yours</u>
Value of milk sold (12,000# x \$11.50)	\$1,380	\$ _____
Value of calf (\$120 x 90%)	100	_____
Total value produced	1,480	_____
Owner's income share (x 20%)	300	_____

In alternative #2, the owner would select one heifer calf for each three cows leased out so as to maintain the cow herd over time. The value of these calves would be subtracted from the owner's income share in alternative #1 to determine the owner's share of milk sales to be received.

<u>Alternative #2 - Owner keeps 1/3 of heifer calves</u>		
Owner's income share (above)	\$ 300	\$ _____
Value owner's share of calves (\$150 x 1/3)	50	_____
Owner's share of milk sales	250	_____
Owner's % of milk sales	18%	_____ %

Step #3 - CONSIDER YOUR BARGAINING POSITION

The final lease arrangement should be settled after considering these and other factors which affect the relative bargaining position of the two parties involved.

<u>Operator</u>	<u>Owner</u>
* Are you short on capital?	* How good a dairyman is the operator?
* Would annual cost of owning your own cows be less?	* What kind of market outlet does he have?
* What is the productivity of the available cows?	* What quality forage does he produce?
* Are you providing a better market outlet for milk?	* Could you get a higher return on your investment?

Step #4 - PUT LEASE ARRANGEMENT IN WRITING

The following points should be resolved and specified in the agreement:

1. Contributions to be made by each party and how income is to be shared.
2. Responsibility for management decisions relative to breeding, feeding and culling. Owner may want to pay all or part of breeding fees if get heifer replacement stock. Minimum and maximum culling rates should be agreed upon.
3. Period of contract and renewal provisions. Recommended only 1 year at this time because of the rapidly changing prices and production costs.
4. Cancellation provisions - how can contract be terminated?
5. Arbitration provisions in case of disagreement.