MN 2000 FM-532

LEASING DAIRY COWS

Planning An Equitable Arrangement

Step #1	COW OWNER Example		OPERATOR Example	
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** — Cow Only / Cow & Replace.				
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 supl.(#) 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.

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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.

Alternative #1 - Operator keeps all calves	Example	Yours
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.

Alternative #2 - Owner keeps 1/3 of heifer calves		
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.

Operator

* Are you short on capital?
* Would annual cost of owning your own cows be less?
* What is the productivity of the available cows?
* Are you providing a better market outlet for milk?

Owner

* How good a dairyman is the operator?
* What kind of market outlet does he have?
* What quality forage does he produce?
* 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.