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# **Irrigation Crop-share and Cash Rental Arrangements for Your Farm**



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## Contents

|   |           |
|---|-----------|
| <b>Part I: Irrigation Crop-share or Cash-rent Arrangement? .....</b>                | <b>2</b>  |
| Advantages of Crop-share Arrangements .....   | 2         |
| Disadvantages of Crop-share Arrangements .....                                      | 2         |
| Advantages of Cash Renting .....  | 2         |
| Disadvantages of Cash Renting .....   | 3         |
| <b>Part II: Establishing an Irrigation Crop-share Arrangement .....</b>             | <b>3</b>  |
| Developing the Arrangement .....  | 5         |
| The Crop Approach .....   | 5         |
| Approach No. 1 — Contributions Approach. ....                                       | 6         |
| Approach No. 2 — Desired-share Approach. ....                                       | 8         |
| <b>Part III: Developing a Fair Cash Rental Irrigation Arrangement .....</b>         | <b>8</b>  |
| Cash-rent Market Approach .....   | 8         |
| Landlord's Ownership Cost or Desired Return .....                                   | 8         |
| Landlord's Adjusted Net-share Rent .....  | 9         |
| Tenant's Net Return to Land.....  | 9         |
| What's a Fair Cash Rent? The Bargaining Process .....                               | 10        |
| <b>Part IV: Establishing Rents for Other Cropland, Pasture, and Buildings .....</b> | <b>10</b> |
| <b>Part V: Putting The Agreement in Writing .....</b>                               | <b>12</b> |
| <b>Worksheets .....</b>   | <b>15</b> |
| <b>Irrigation Crop-share or Crop-share/Cash Farm Lease.....</b>                     | <b>16</b> |

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Irrigated cropland rental arrangements vary widely across localities and farming areas. The land may vary from undeveloped land to land leveled for flood irrigation. Additionally, the landlord may own the well, pump, gearhead, and delivery system or any combination of these assets. Thus, each irrigation lease should be different depending on the quality and quantity of the various assets contributing to production. Traditional nonirrigated leases may be of little help in determining fair and equitable irrigation arrangements.

This publication's purpose is to help tenants and landlords make sound decisions and develop fair crop-share or cash-rent irrigation arrangements. The first section addresses the relative advantages and disadvantages of crop-share and cash-rent lease arrangements. Part II addresses the establishment of irrigation crop-share arrangements and discusses some basic principles. Part III examines four methods to establish irrigation cash-rent rates. Buildings, nonirrigated land, and pasture are often involved when leasing irrigated land. How to deal with these parts of the operation is discussed in Part IV. Part V discusses the importance of developing a written agreement. A sample lease form is included at the end of this publication.

## **Part I: Irrigation Crop-share or Cash-rent Arrangement?**

Landlords and tenants can choose from several types of rental arrangements. In addition to crop share, the lease agreement can be a crop-share/cash, straight cash, or flexible cash arrangement. In addition to leasing, a landlord may hire custom operators to do the field work or "direct operate" by hiring labor to operate the owner's machinery. There are both advantages and disadvantages to crop-share and cash-rent arrangements. Some points to consider in deciding what type of rental arrangement to use are outlined in the following discussion.

### **Advantages of Crop-share Arrangements**

1. Compared to cash rents, less operating capital may be "tied up" by the tenant due to the landlord sharing costs.
2. Management may be shared by an experienced landlord and tenant, resulting in more effective decisions.

3. Sales of crops may be timed for tax management. Likewise, purchased inputs may be timed to shift expenses for tax purposes.
4. Risks due to low yields or prices, as well as profits from high yields or prices, are shared by the two parties.
5. Unlike cash leases, a "material participation" crop- or livestock-share lease satisfies the predeath qualified use or "equity intent" test requirement for special-use valuation for federal estate tax purposes. A crop- or livestock-share lease does not satisfy all predeath eligibility requirements. A cash-rent lease will not work. Also, the landlord may build a Social Security base through "material participation."<sup>1</sup>

### **Disadvantages of Crop-share Arrangements**

1. The landlord's income will be variable because of yield and price variation and changes in shared production-input costs. This may be a particularly important concern for landlords in retirement.
2. Accounting for shared expenses must be maintained.
3. Marketing decisions must be made by the landlord, except for nonmaterial participation crop-share leases.
4. The need for tenant and landlord to discuss annual cropping practices and to make joint management decisions is greater.
5. As prices, government policies, and technology change, the lease should be reviewed for fairness. Sharing arrangements may need to be changed.
6. A "material participation" crop- or livestock-share lease may reduce Social Security benefits in retirement.<sup>1</sup>

### **Advantages of Cash Renting**

1. Less (perhaps none) landlord managerial input is required than with other leasing arrangements. The tenant is allowed a relatively free hand in making management decisions.
2. Reduced involvement decreases the possibility of friction between the landlord and tenant concerning management decisions.
3. Concern about accurate division of crops and expenses is reduced or eliminated.
4. The landlord does not have to handle the marketing of crops. However, the landlord will not receive additional profits due to high yields or prices.

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<sup>1</sup> Crop-share rental income is excluded from self-employment income unless the landlord "materially participates" in the production of agricultural products or production management. Material participation is necessary to build a Social Security base and may be necessary if special-use valuation is to be used for federal estate tax purposes. However, material participation may cause Social Security payments to be decreased for eligible persons.

5. Fixed cash rent lessens the landlord's concern about variations in prices and yields. The tenant bears all price, cost, and production risks.
6. For those interested in drawing Social Security payments, cash renting greatly reduces the likelihood that the landlord will be considered a "participating landlord." Also, cash rent can be received without affecting Social Security payments.

### **Disadvantages of Cash Renting**

1. A cash-rent amount acceptable to both parties can be difficult to determine.
2. Once a cash-rent rate is set, a change in the rental rate may be difficult to negotiate in response to changes in prices and costs.
3. In average or above-average years, the landlord may receive less net income than from crop-share rents. However, additional profits due to high yields or prices will not occur.
4. The landlord has fewer opportunities for income tax management. Under a share arrangement and cash reporting of taxable income, the amount of taxable income can be shifted some through timing of crop sales before or after the end of the year. Similarly, purchase of fertilizer and seed for the next growing season can be made in the closing months of any tax year to reduce taxable income.
5. There may be an increased danger the tenant will "mine" the land. However, competition for land and appropriate requirements in a written lease can minimize this problem.
6. The landlord has little opportunity to build a base for Social Security payments due to the difficulty in establishing acceptable evidence of material participation. This may not be a concern to retired landlords.
7. Risk from price and yield variations is assumed by the tenant.
8. To value the farmland in the landlord's estate at its use value rather than its fair-market value for estate tax purposes, the following two requirements must be met:
  - (a) Before the landlord dies, a cash-rent lease can only be to a member of the landlord's family as the tenant.
  - (b) After death, the heirs must not cash lease the use-value land; not even to a family member.
9. Eligibility for paying federal estate tax in installments over 15 years after death could be jeopardized. Land rented through a cash-rent lease does not constitute an interest in a closely

held business, which the decedent must have at the time of death to be eligible to pay federal estate tax in installments. Only crop-share or livestock-share leases qualify as interest in a closely held business.

## **Part II: Establishing an Irrigation Crop Share Arrangement**

Irrigation farming is a business involving the combination of land, irrigation equipment, machinery, labor, and other inputs and management to produce crops. Each of these inputs is owned or contributed by different parties. Payment for the inputs should be proportional to the value contributed toward production. Equitable payment to each party is the reason for developing a fair lease. An equitable lease should be developed using some basic rules or principles. Five important principles to follow include:

1. Variable expenses that increase yields should be shared in the same percentage as the crop is shared.
2. Share arrangements should be adjusted to reflect the effect new technology has on costs and returns.
3. Both the landlord and tenant should share total returns in the same proportion as they contribute resources.
4. Tenants and landlords should be compensated at the termination of the lease for the undepreciable balance of long-term investments.
5. Communication should be maintained between the landlord and tenant.

**Principle No. 1.** Variable expenses that increase yields should be shared in the same percentage as the crop is shared.

Variable inputs are those used in production, such as seed, fertilizer, herbicides, insecticides, irrigation fuel, crop fuel, harvesting, drying, and hauling. Some inputs, such as fertilizer, are directly yield-increasing. Sharing these costs in the same percentage as the crop encourages the parties to use optimal amounts of the input so as to maximize net returns to the total business operation. Table 1 illustrates this principle.

For the most profitable production, fertilizer should be added until the marginal cost of the last unit just equals the marginal return. As illustrated in Table 1, an owner-operator would apply three units of fertilizer to achieve a 190-bushel yield, since at that point the added crop value would equal the added \$25 cost of the third unit of fertilizer.

With a 50-50 share arrangement, the tenant and landlord also will find the most profitable use to be three units of fertilizer since the \$25 fertilizer cost also will be shared 50-50. Thus, the \$12.50 of added cost will equal the \$12.50 added return for the tenant or landlord.

However, if the tenant were required to pay all of the fertilizer cost but receives only 50 percent of the crop, the most profitable use of fertilizer would be two units (see Table 1). From an economic standpoint, failure to share yield-increasing inputs in the same proportion as yields are shared tends to reduce yields and resultant income. Irrigation fuel, as a measure of the amount and cost of water applied, is another yield-increasing item that should be shared by the landlord and tenant.

In contrast, the failure to share non-yield-increasing variable expenses will not likely affect earnings. For example, the failure to share the cost of fuel for tillage or harvest operations will not be likely to cause the tenant to avoid performing these operations. Thus, if the landlord and tenant wish to adjust variable expense contributions so as to operate on a certain percentage basis, then those inputs that are not yield-related should be used to make the needed adjustments.

**Principle No. 2.** Share arrangements should be adjusted to reflect the effect new technology has on costs and returns. Substitution occurs when one input can be used to replace another input. For example, chemical weed control may replace cultivation. If such substitution occurs, a determination must be made concerning whether the landlord or tenant will pay for the chemicals. The answer to this question depends on the type of inputs involved.

1. Yield-increasing inputs — These inputs should be shared by the landlord and tenant in the same percentage as the crop is shared.
2. True substitution inputs — These inputs should be paid by the party responsible for the item in the original lease.
3. Inputs that are both yield-increasing and substitution — The lease needs to address this situation.

**Principle No. 3.** Both the landlord and tenant should share total returns in the same proportion as they contribute resources.

If a landlord contributed 50 percent of total resources and the tenant 50 percent, then a 50-50 sharing of the crop would be equitable. All inputs should be valued, including management and risk.

Historically, crop-share leasing has been influenced strongly by customary arrangements in the area. Similarly, customary share arrangements change little over time, even though the relative values of land, machinery, irrigation components, labor, and management have changed markedly.

Thus, it is important the landlord and tenant establish their contributions according to the actual operation, rather than on the basis of customary arrangements in the area.

**Principle No. 4.** Tenants and landlords should be compensated at the termination of the lease for the undepreciated balance of long-term investments.

If a fair compensation arrangement cannot be developed, the party that will likely control a particular investment at the termination of the lease should make the contribution with regard to that asset. For example, the landlord usually pays for the cost of a well. However, if the tenant covers the cost of the well, the lease should provide for a method of calculating the payment to the tenant for the remaining value of the well when the lease is terminated.

**Table 1.** Effect of Fertilizer Cost-share Arrangement on Most Profitable Level of Fertilizer Use

| Units fertilizer per acre | Crop yield (bushels per acre) | Crop value per acre (\$2.50 per bushel) |   | 100% of added crop value | Fertilizer cost per added unit | 50% of added crop share |
|---------------------------|-------------------------------|---|---|--------------------------|--------------------------------|-------------------------|
| 0                         | 135                           | \$337.50                                |   |                          |                                |                         |
| 1                         | 160                           | \$400.00                                | ▲ | \$62.50                  | \$25.00                        | \$31.25                 |
| 2                         | 180                           | \$450.00                                | ▲ | \$50.00                  | \$25.00                        | \$25.00 <sup>1</sup>    |
| 3                         | 190                           | \$475.00                                | ▲ | \$25.00                  | \$25.00 <sup>2</sup>           | \$12.50 <sup>3</sup>    |
| 4                         | 195                           | \$487.50                                | ▲ | \$12.50                  | \$25.00                        | \$6.25                  |
| 5                         | 198                           | \$495.00                                | ▲ | \$7.50                   | \$25.00                        | \$3.75                  |
| 6                         | 195                           | \$487.50                                | ▲ | (\$7.50)                 | \$25.00                        | (\$3.75)                |

<sup>1</sup> Tenant will apply only two units of fertilizer when paying all of the fertilizer costs and receiving 50 percent of the crop.

<sup>2</sup> Owner-operator will apply 3 units of fertilizer.

<sup>3</sup> Tenant and landlord will apply 3 units of fertilizer when sharing fertilizer cost in same proportion as the crop.

**Principle No. 5.** Communication should be maintained between the landlord and tenant.

If the lease does not follow the first four leasing principles, the farming operation may not be functioning at maximum economic efficiency. This may result in one party gaining at the expense of the other.

However, strict adherence to these four principles will not achieve an equitable lease agreement if excellent communication does not exist between the tenant and landlord. Therefore, securing a good tenant and making necessary adjustments to the lease agreement by the landlord so as to make it an attractive business operation may well be the key to the landlord maximizing profits.

In turn, the tenant needs to have a lease agreement that provides for an excellent working relationship with the landlord; and thus allows for the utilization of all the farm's resources to achieve maximum economic returns.

### Developing the Arrangement

The next step is to apply these principles in determining a fair crop-share arrangement for the operation, whether it be for a single crop, separate parcel, or whole farm. Such an approach must separately consider each of the following five components: (1) cropland rented on shares, (2) cropland rented for cash, (3) pasture, (4) service buildings, and (5) house.

Thus, the cropland lease can be developed regardless of improvements and pasture. Although improvements and pasture usually are cash rented, the land and investments may be considered when developing the crop-share lease.

### The Crop Approach

The crop approach may be used when establishing a new lease arrangement or testing existing arrangements.

Worksheet 1 provides information for establishing a fair and equitable crop-share arrangement. The underlying principle of Worksheet 1 is that both parties should share in the total returns in the same proportion as their contributions.<sup>2</sup> The worksheet helps determine input expenses and an equitable division of the crop between the landlord and tenant.

The worksheet can be used to analyze any particular situation in either of two ways:

1. Contribution approach. The percentage contribution of each party is determined. The parties then share other operating expenses and crops in the same percentage.

2. Desired-share approach. The parties specify a given percentage-share basis and adjust contribution to fit this percentage.

The major task with either approach is to establish fair values and annual-use charges for the various contributions. The following discussion will outline this valuation process, illustrated in Worksheet 1.

*Land:* Land is valued at its current fair-market value for agricultural purposes. The influence of location near cities and other nonagricultural influences on value is ignored.

*Interest on land:* A practical "bargaining" rate of interest tends to be approximately 5 to 7 percent for two primary reasons:

1. The current value of real estate is used rather than the purchase price.
2. Upon sale of the farm, the net dollars available to loan out at a higher rate of interest would be lower than the fair market value because of income taxes and sale expenses.
3. Historic returns to land have been in the 4- to 6-percent range as an annual return above all charges, except land.
4. Returns to owning land may include capital gains as well as the annual income from renting land.

**Note:** Cash rental rates for the area can be used to estimate the annual land charge.

*Real estate taxes:* The actual taxes due annually should be used.

*Land development:* The average dollars spent annually for land leveling, other land improvements, lime, and conservation practices should be used.

*Well, pump, gear head, and power unit:* This equipment may be part of the land value. If it is not included in the value of the land or if it needs to be completed, enter the costs for each item on the appropriate lines on the worksheet. Estimate the appropriate useful life for each item as a basis for determining annual depreciation charge. Interest charge is shown at 5 percent of new value, or equal to 10 percent of the average value.

*System:* If a new system is being installed, the value entered for each item should be actual cost. If the system is currently in existence, both parties will need to agree on the system's fair-market value and remaining years of life. Interest is shown at 5 percent of new value or equal to 10 percent of the average value.

*Crop machinery:* The value of machinery should be the average value of a good line of machinery necessary to farm in the area being considered. The value should not be the cost of a new line of machinery. Likewise, the value can-

<sup>2</sup> Government payments and other income should be shared in the same proportion as the crops.

not be the actual cost to the tenant (as land cannot be the actual cost to the landlord) because the tenant may have a very large investment of machinery spread over a few acres. In turn, the tenant may have old, serviceable machinery that has a low value. Machinery values can be obtained from local county agents or the state Extension service.

*Machinery depreciation:* Depreciation years for machinery are 7 to 10 years remaining useful life.

*Machinery repairs, taxes, and insurance:* Farm records indicate repairs are 5 to 8 percent of the original machinery value. The charge for taxes and insurance should be from 0.25 to 1 percent.

*Machinery interest:* The current interest costs on the average machinery value (usually half the original value) should be used.

*Labor:* Labor can be contributed solely by the tenant or by both the tenant and landlord. (Caution should be used to not form a partnership when considering contribution of labor and management by the landlord. That is, if specific amounts of labor are to be contributed by the tenant and landlord to handle the farm's crop production, then a partnership agreement may have been formed rather than a lease agreement between the landlord and tenant.) Each party is given credit by placing a value on labor contributed to the business.

**Note:** Average custom rates for tillage, planting, and harvesting operations can be used to estimate the annual charges for machinery and labor.

Placing a value on labor is a bargaining process between the parties entering the leasing arrangement. A guide for estimating the value of labor is the going wage rate paid to farm employees within the community. Most farm operators are certainly worth more than the value of an average employee because of their management, but management is valued separately from labor.

*Management:* Management is an important contribution to a successful leasing agreement. The function of management may or may not be shared. Experienced landlords may make substantial contributions to the management of the farm business. Inexperienced or absentee landlords may contribute nothing to management.

If landlords contribute to management, credit needs to be given. If the tenant bears all management responsibility, a value should be placed on this management function.

The value of management is largely a result of bargaining between the landlord and tenant. Two alternatives are possible:

1. A possible guide is 1 to 2.5 percent of the average capital managed in the business. The average capital managed is equal to the market value of the land and value of machinery and irrigation equipment.

2. Professional farm managers commonly charge 5 to 10 percent of adjusted gross receipts. (In the case of crop production, gross receipts equal total crop receipts.)

Either procedure will provide an estimated value for management. However, a value equal to 1 to 2.5 percent of average capital managed is a more stable figure than a percentage of gross receipts because prices and yields for commodities vary greatly from year to year.<sup>3</sup>

*Custom rates:* Harvesting, hauling, spreading fertilizer, and other operations are often custom-hired. These charges can be entered in the worksheet.

**Note:** If custom hiring is done, the crop machinery investment should be adjusted, as less machinery investment is needed when custom work is part of the operation.

### Approach No. 1 —

#### Contributions Approach.

Under this approach, the percentage contribution represented by the resources of each party is determined, and the parties share other operating expenses and crops in the same percentage.

In the Worksheet 1 example, the crop-share percentage based on the estimated contributions of the landlord and tenant would be 50-50, with all operating expenses not listed shared on the same basis.<sup>4</sup> The resultant crop-share percentage derived with this worksheet will not equal a customary share arrangement percentage such as 40-60 or 50-50 in most actual cases. As such, the landlord and tenant may negotiate a fair annual-use charge for the various contributions. The negotiation process provides a means of arriving at a charge for each contribution that is acceptable to both parties. However, intelligent bargaining can only occur if the contributions of each party are known.

<sup>3</sup> If the landlord materially participates, the rent will be self-employment income counting towards building a Social Security base, but it also may reduce Social Security benefits in retirement. However, the income may allow qualifications for the use-value method of valuing the estate. The solution may be a nonmaterial participation crop-share lease.

<sup>4</sup> Line 33 of Worksheet 1 will probably not represent the total costs of both parties. In the example, values for such inputs as fertilizer, herbicide, and insecticide were not listed since these items were shared in the same percentage as the crop. As an alternative method, a set crop-share percentage does not need to be specified, therefore all operating expenses would be listed on lines 22 through 32.

**Worksheet 1. Crop Approach to Irrigation Crop-share Arrangements**

**System Type:** Center Pivot

**Acres:** 126

**Location:** SE 1/4

| Line  | Value       |                       |   | Rate or Life | Per Acre Charge <sup>2</sup> | Landlord   | Tenant    |
|---|-------------|-----------------------|---|--------------|------------------------------|------------|-----------|
|   | Total Acres | Per Acre <sup>1</sup> |   |              |                              |            |           |
| 1. Land (Undeveloped)   | \$ 68,040   | \$ 540.00             | x | .06          | \$ 32.40                     | \$ 32.40   | \$        |
| 2. Land Real-estate Tax   |             |                       | x | .005         | \$ 4.15                      | \$ 4.15    | \$        |
| 3. Land Development   | \$ _____    | \$ _____              | x | .06          | \$                           | \$         | \$        |
| 4. Development Real-estate Tax  |             |                       | x | .005         | \$                           | \$         | \$        |
| 5. Well ( ft.)  | \$ 16,056   | \$ 131.00             | x | .05          | \$ 6.55                      | \$ 6.55    | \$        |
| 6. Well Depreciation  |             |                       | ÷ | 15 Yr.       | \$ 8.73                      | \$ 8.73    | \$        |
| 7. Pump   | \$ 16,613   | \$ 131.85             | x | .05          | \$ 6.59                      | \$ 6.59    | \$        |
| 8. Pump Depreciation  |             |                       | ÷ | 15 Yr.       | \$ 8.79                      | \$ 8.79    | \$        |
| 9. Gear Head  | \$ 3,421    | \$ 27.15              | x | .05          | \$ 1.36                      | \$ 1.36    | \$        |
| 10. Gear Head Depreciation  |             |                       | ÷ | 15 Yr.       | \$ 1.81                      | \$ 1.81    | \$        |
| 11. Power Unit/Meter  | \$ 6,300    | \$ 50.00              | x | .05          | \$ 2.50                      | \$ 2.50    | \$        |
| 12. Power Unit/Meter Depreciation   |             |                       | ÷ | 7 Yr.        | \$ 7.14                      | \$ 7.14    | \$        |
| 13. System  | \$ 48,510   | \$ 385.00             | x | .05          | \$ 19.25                     | \$ 19.25   | \$        |
| 14. System Depreciation   |             |                       | ÷ | 10 Yr.       | \$ 38.50                     | \$ 38.50   | \$        |
| 15. Irrigation Equipment Repairs  | XXXXXX      | \$ 725.00             | x | .01          | \$ 7.25                      | \$ 7.25    | \$        |
| 16. Irrigation Equipment Taxes and Insurance  |             |                       | x | .0025        | \$ 1.81                      | \$ 1.81    | \$        |
| 17. Labor   | XXXXXX      | 2.50 hrs.             | x | \$ 9.00 /hr. | \$ 22.50                     | \$         | \$ 22.50  |
| 18. Crop Machinery  |             |                       | x | .05          | \$ 10.40                     | \$         | \$ 10.40  |
| 19. Crop Machinery Depreciation   | XXXXXX      | \$ 208.00             | ÷ | 10 Yr.       | \$ 20.80                     | \$         | \$ 20.80  |
| 20. Machinery Repairs Taxes and Insurance   |             |                       | x | .11          | \$ 22.88                     | \$         | \$ 22.88  |
| 21. Management <sup>3</sup>   | XXXXXX      | \$ 1,423.00           | x | .02          | \$ 29.46                     | \$         | \$ 29.46  |
| 22. Fertilizer  |             |                       |   |              | \$                           | \$         | \$        |
| 23. Seed  |             |                       |   |              | \$ 28.80                     | \$         | \$ 28.80  |
| 24. Irrigation Fuel   |             |                       |   |              | \$                           | \$         | \$        |
| 25. Crop Fuel   |             |                       |   |              | \$ 8.00                      | \$         | \$ 8.00   |
| 26. Herbicide   |             |                       |   |              | \$                           | \$         | \$        |
| 27. Insecticide   |             |                       |   |              | \$                           | \$         | \$        |
| 28. Crop Insurance  |             |                       |   |              | \$                           | \$         | \$        |
| 29. Harvesting <sup>5</sup>   |             |                       |   |              | \$                           | \$         | \$        |
| 30. Drying  |             |                       |   |              | \$                           | \$         | \$        |
| 31. Hauling <sup>5</sup>  |             |                       |   |              | \$                           | \$         | \$        |
| 32. Other   |             |                       |   |              | \$ 4.00                      | \$         | \$ 4.00   |
| 33. TOTAL ALL COSTS (Lines 1-32)  |             |                       |   |              | \$ 293.67                    | \$ 146.83  | \$ 146.84 |
| 34. Percent Crop Share [line 33 Landlord (Tenant) ÷ line 33 Per Acre Charge]          |             |                       |   |              | 100%                         | 50 %       | 50 %      |
| 35. Insecticide   |             |                       |   |              | \$                           | \$ - 29.36 | \$ 29.36  |
| 36.   |             |                       |   |              | \$                           | \$         | \$        |
| 37.   |             |                       |   |              | \$                           | \$         | \$        |
| 38.   |             |                       |   |              | \$                           | \$         | \$        |
| 39.   |             |                       |   |              | \$                           | \$         | \$        |
| 40. Adjusted Total (Line 33 + Lines 35-39)  |             |                       |   |              | \$ 293.67                    | \$ 117.47  | \$ 176.20 |
| 41. Adjusted Percent Crop Share [line 40 Landlord (Tenant) ÷ line 40 Per Acre Charge] |             |                       |   |              | 100%                         | 40 %       | 60 %      |

<sup>1</sup> Per acre value based on number of acres irrigated, which may be 126 acres for center pivot.

<sup>2</sup> Obtain "Per Acre Charge" by multiplying, or dividing, per acre value by rate or life.

<sup>3</sup> Management charge based on average investment in land, land development, irrigation equipment, and crop machinery.

<sup>4</sup> For operating expenses (lines 22 through 32), enter only the value of items not shared between the landlord and tenant.

<sup>5</sup> Harvesting and hauling costs may be included in crop machinery and fuel-oil expenses.



## **Approach No. 2 — Desired-share Approach.**

Under this approach, the parties specify a given percentage-share basis (say, 40-60), and then adjust the contributions to fit this percentage.

In Worksheet 1, lines 35 through 39 are used to add items previously shared (lines 23 through 32 that are blank) to increase or decrease the contributions of the landlord and tenant as the means of achieving the specific share arrangement. As an example, the landlord and tenant may desire a 40-60 crop-share percentage arrangement.

In the Worksheet 1 example, both parties initially shared the cost of insecticides since line 27 was blank. The landlord's insecticide expense was \$29.36 with a 50-50 share percentage. To achieve a specified crop-share arrangement, the tenant may agree to pay the total cost of insecticides. Thus, on line 35, the insecticide expense of \$29.36 was subtracted from the landlord's contribution with the same amount added to the tenant's total to achieve the desired 40-60 share arrangement.

The "desired-share approach" will violate the principle that yield-increasing inputs, such as fertilizer, should be shared in the same percentage as the crop. Consequently, this approach should be used on a limited basis.

Development of an acceptable crop-share lease may require negotiations between the tenant and landlord on the sharing of the input levels for specific operating expenses. Production practices that increase, or protect, the value of one party's resources should probably be reflected in a higher cost share or reduced crop share for that party. For example, the land value may be reduced if noxious weeds are not controlled. Therefore, the landlord may be willing to cover the total cost of weed control without any accompanying increase in the crop share received.

Special consideration also may need to be given to such operating expenses as hauling, drying, crop insurance, and crop consulting. The tenant and landlord should probably be totally responsible for hauling and drying expenses once the crop has been produced. Crop insurance costs are usually the responsibility of each party. In turn, the crop consultant's function is either to reduce costs or increase yields, and thus the cost should be shared between the tenant and landlord in the same percentage as the crop.

## **Part III Developing a Fair Cash Rental Irrigation Arrangement**

If the decision is to rent for cash, how is a fair cash-rent rate determined for the farm or field in question? Four methods that can be used to establish a fixed cash rent for a particular farmer's field are (1) cash-rent market approach, (2) landlord's cost or desired return approach, (3) landlord's net share rent approach, and (4) the amount a tenant can afford to pay. Worksheets 2, 3, and 4 outline how to compute the cash rent for each method.

The following discussion and worksheet examples are related to cash renting a farm. The concepts and approaches outlined in this publication are the same whether cash renting of a field or total farm is being considered. In some cases, the landlord and tenant may only want to consider cash rent for a specific crop.

### **Cash-rent Market Approach**

This method requires knowledge of cash rents being paid for farms in the area. Adjustments should be made for differences in the productivity of the farm and the amount and quality of improvements.

This approach has some problems or disadvantages. Actual cash rents being paid for comparable farms may be difficult to determine and to agree on any adjustments that need to be made. Other approaches may be more sophisticated, yet better reflect a given situation. The rates determined by any method cannot deviate greatly from the prevailing market rates if those rates are to be seriously considered in the final bargaining process.

### **Landlord's Ownership Cost or Desired Return**

With this approach, the landlord calculates the cost of resource ownership or establishes the kind of return desired on the resource investment. The value derived is the amount of cash rent the landlord would like to receive for the property. Worksheet 2 outlines the required computations. Some points to remember in deriving these ownership costs are —

*Interest on land:* See crop-share approach, page 7.

*Real estate taxes:* Actual real estate taxes paid on the land and improvements should be used.

*Land development (maintenance):* Enter estimated annual charges for development and maintenance. If the landlord handles some of the repair work or other maintenance, a reasonable allowance should be made for the labor required.

*Irrigation equipment:* See crop-share approach, page 7.

*Building improvements:* Interest, depreciation, repairs, taxes, and insurance charges on building improvements should utilize the same methodology as for irrigation equipment.

Landlords will seldom receive enough cash rent to cover total ownership costs. Consequently, this method **may** result in an extremely high value. Nevertheless, the method does give the landlord a basis for setting the “asking price” in cash rent negotiations.

### Landlord’s Adjusted Net-share Rent

This method for computing cash rent assumes it should be related to crop-share rent. Normally, fixed cash rents are expected to be lower than net crop-share rent since the landlord shifts all price and weather risk to the tenant. The difference represents the tenant’s compensation for carrying the added risk.

However, cash rents are not always lower than crop-share rents. If there is strong demand in a given area for land to be rented, cash rents may exceed net crop-share rents. This fact explains why landlords are sometimes reluctant to change from cash-rent to crop-share arrangements.

If this method is utilized, an average net crop share over a period of years to allow for both good and bad yields should be used. Landlords who have

rented on a share basis in previous years are likely to know the percentage of crop share received.

If the landlord does not know what has been the average net-share rent, Worksheet 3 can help estimate this value. Yield and cost values should be used that can be realistically expected for the current year. Typical share arrangements for the community or area should be used in determining the landlord’s share of income and expenses.

Once the net-share rent value has been determined or estimated, the landlord and tenant must decide how much to adjust this value for price and weather risk assumed by the tenant. Determination of the risk value is a matter for negotiation between the two parties.

### Tenant’s Net Return to Land

In the desire to farm additional land, tenants may sometimes bid more for land than they can actually afford to pay. Hence, tenants need to carefully figure how much money will actually be available to pay for the use of land after variable expenses, fixed costs on machinery, and a return to labor and management have been deducted from the gross value of crops. Worksheet 4 outlines a procedure the tenant can use to estimate how much can be paid for cash rent.

The values for labor and management may be the most difficult items to determine. The value used for labor should reflect the amount of time

**Worksheet 2. Landlord Ownership Costs as Basis for Fixed Cash Rent**

| Crop(s) grown: Corn             |                      | System type: Center Pivot |              | Acres: 126             |  | Year: 1996 |  |
|---------------------------------|----------------------|---------------------------|--------------|------------------------|--|------------|--|
| Item                            | Total per acre value |                           | Rate or life | Per acre annual charge |  |            |  |
| 1. Land (Undeveloped)           | \$ 540.00            |                           |              |                        |  |            |  |
| Interest                        |                      | x                         | 6.0 %        | \$ 32.40               |  |            |  |
| Real estate tax <sup>1</sup>    |                      | x                         | 0.5 %        | \$ 4.15                |  |            |  |
| 2. Land (Developed)             | \$ 0.00              |                           |              |                        |  |            |  |
| Interest                        |                      | x                         | 6.0 %        | \$ 0.00                |  |            |  |
| Real estate tax                 |                      | x                         | 0.5 %        | \$                     |  |            |  |
| 3. Irrigation equipment         | \$ 725.00            |                           |              |                        |  |            |  |
| Depreciation <sup>2</sup>       |                      | ÷                         | 1.0 yrs      | \$ 64.97               |  |            |  |
| Interest                        |                      | x                         | 5.0 %        | \$ 36.25               |  |            |  |
| Repairs                         |                      | x                         | 1.0 %        | \$ 7.25                |  |            |  |
| Insurance-Taxes                 |                      | x                         | 0.25 %       | \$ 0.97                |  |            |  |
| 4. Buildings                    | \$ 0.00              |                           |              |                        |  |            |  |
| Depreciation                    |                      | ÷                         | _____ yrs    | \$ 0.00                |  |            |  |
| Interest                        |                      | x                         | _____ %      | \$                     |  |            |  |
| Repairs                         |                      | x                         | _____ %      | \$                     |  |            |  |
| Insurance-Taxes                 |                      | x                         | _____ %      | \$                     |  |            |  |
| 5. Other investment items       | \$ 0.00              |                           |              |                        |  |            |  |
| _____                           |                      | ÷                         | _____ yrs    | \$ 0.00                |  |            |  |
| _____                           |                      | x                         | _____ %      | \$                     |  |            |  |
| _____                           |                      | x                         | _____ %      | \$                     |  |            |  |
| _____                           |                      | x                         | _____ %      | \$                     |  |            |  |
| 6. Total cash or desired return |                      |                           |              | \$ 146.83              |  |            |  |

<sup>1</sup> Real estate tax computed on the value of land, land development, well, pump, and gearhead.

<sup>2</sup> Years of life vary by type of irrigation equipment.

<sup>3</sup> Do not compute an interest charge if value of buildings, improvements, etc., are included in value of land.

used only for crop production and general farm maintenance. The hourly rate should equal what the tenant could earn if working for other farmers in the area. Management is sometimes valued at 7 to 12 percent of the gross value of crops, or 1.5 to 2.5 percent of the investment in land, equipment, and machinery.

### What's a Fair Cash Rent?

#### The Bargaining Process

A final cash-rent figure acceptable to both the tenant and landlord can be derived from more than one of the methods outlined in this publication. The landlord and tenant should identify areas of agreement and differences based on values each party has independently developed. To aid in this process, Table 2 summarizes the example values derived from the different methods.

Negotiation provides a means of arriving at a rate that is acceptable to both, and it is an opportunity for both parties to understand the other's point of view. However, negotiations should be undertaken only after the contributions of each party are known and information is provided on local leasing arrangements. The landlord and tenant need to recognize that pressing an advantage too far can result in an unfair leasing arrangement for one party or the other. A lease that is unfair to either

party is unlikely to last. An unfair, lopsided arrangement tends to encourage dishonesty and poor cooperation from the disadvantaged party. Also, over time, changes may occur, and "the shoe may be on the other foot" the next time.

**Table 2. Comparison of Results When Different Approaches Are Used**

|   | Examples  | You      |
|---|-----------|----------|
| Adjusted average cash rent in area              | \$ 135.00 | \$ _____ |
| Landlord's cost and desired return <sup>1</sup> | \$ 146.83 | \$ _____ |
| Landlord's adjusted net share rent <sup>2</sup> | \$ 143.20 | \$ _____ |
| Amount tenant could afford to pay <sup>3</sup>  | \$ 124.13 | \$ _____ |

<sup>1</sup> Worksheet 1; <sup>2</sup> Worksheet 2; <sup>3</sup> Worksheet 3

### Part IV Establishing Rents for Other Cropland, Pasture, and Buildings

*Other cropland.* See the following publications: NCR-75, *Fixed and Flexible Cash Rental Arrangements For Your Farm*, and NCR-105, *Crop Share or Crop Share/Cash Rental Arrangements For Your Farm*.

#### Worksheet 3. Converting Landlord's Net Share Rent to Cash Rental Rate <sup>1</sup>

##### ◆ Landlord's Share of Gross Crop Value

| Crops                                  | Acres      | Yield per Acre <sup>2</sup> | Landlord's Share |                |                               |                  | Per-acre Value   |
|--|------------|-----------------------------|------------------|----------------|-------------------------------|------------------|------------------|
|  |            |                             | Percent of Crop  | Tons or Bushel | \$/Ton or Bushel <sup>3</sup> | Total Value      |                  |
| Corn                                   | 126        | 200                         | 40               | 10,080         | \$ 2.50                       | \$ 25,200        | xxx              |
|  |            |                             |                  |                |                               |                  | xxx              |
|  |            |                             |                  |                |                               |                  | xxx              |
| Government Payments (40% of \$25/acre) | 126        |                             |                  |                |                               | 1,260            | xxx              |
|  |            |                             |                  |                |                               |                  | xxx              |
| <b>A. TOTAL CROP RECEIPTS</b>          | <b>126</b> |                             |                  |                |                               | <b>\$ 26,460</b> | <b>\$ 210.00</b> |

##### ◆ Landlord's Share of Shared Expenses<sup>3</sup>

| Crops                                     | Fert.    | Harvest Drying | Irrig. Fuel | Herb. Insect. | Total Cost      | Per Acre Cost    |
|---|----------|----------------|-------------|---------------|-----------------|------------------|
| Corn                                      | \$ 2,533 | \$             | \$ 2,672    | \$ 1,366      | \$ 6,571        | xxx              |
|   |          |                |             |               |                 | xxx              |
|   |          |                |             |               |                 | xxx              |
|   |          |                |             |               |                 | xxx              |
|   |          |                |             |               |                 | xxx              |
| <b>B. TOTAL CROP EXPENSES</b>             |          |                |             |               | <b>\$ 6,571</b> | <b>\$ 52.15</b>  |
| Landlord's Crop Rent (A - B)              |          |                |             |               |                 | \$ 157.85        |
| Less Risk Shifted to Tenant               |          |                |             |               |                 | \$ 14.65         |
| <b>Net Landlord's Share Rent Per Acre</b> |          |                |             |               |                 | <b>\$ 143.20</b> |

<sup>1</sup> If whole farm leased on a cash rent basis list all crops grown, income from each crop, and shared expenses for each crop.

<sup>2</sup> Use average yields, allowing for both good and bad years. Incorporate trends in yields.

<sup>3</sup> Use current prices and costs. Include government payments in price or as separate line.

*Pasture.* See NCR-149, *Pasture Rental Arrangements For Your Farm*. The per-acre, per-head, or total rent for pasture should be entered as part of the crop-share cash lease, along with the stocking rate and any other restrictions.

*House.* The house should be rented for an amount based on the market rate for the area. The house is sometimes provided free to the tenant. Tenant and landlord should agree on payment of utilities and maintenance costs. If the house is rented to someone working on the farm, it is a farm building depreciable over 20 years. Otherwise, it is depreciable residential property and is depreciated over a 27.5-year period.

*Service buildings.* Service buildings may be divided into two classes: useful and nonuseful

buildings. The nonuseful buildings should not be included in the lease. An example would be an old chicken coop that is useless to the tenant.

Useful buildings contribute to the farm operation through grain, hay, or machinery storage or livestock production. The rental value should give the landlord a return on the building's investment. The return should be based on the following ownership costs: depreciation, interest, repairs, taxes, and insurance (the "DIRTI five"). Table 3 can be used to determine the rental value for each useful building. See NCR-214, *Rental Agreements for Farm Machinery, Equipment, and Buildings*.

**Worksheet 4. Amount of Cash Rent Tenant Can Afford to Pay<sup>1</sup>**

◆ **Gross Value of Crops Produced**

| Crops                           | Acres | Yield/Acre <sup>2</sup> | Price/Ton or Bushel <sup>3</sup> | Total Value | Per Acre Value |
|---------------------------------|-------|-------------------------|----------------------------------|-------------|----------------|
| Corn                            | 126   | 200                     | \$ 2.50                          | \$ 63,000   | \$ xxx         |
|                                 |       |                         |                                  |             | xxx            |
| Government Payments (\$25/acre) | 126   |                         |                                  | 3,150       | xxx            |
|                                 |       |                         |                                  |             | xxx            |
|                                 |       |                         |                                  |             | xxx            |
| <b>A. TOTAL CROP VALUE</b>      | 126   |                         |                                  | \$ 66,150   | \$ 525.00      |

◆ **Total Variable Costs<sup>3</sup>**

| Crops                          | Acres | Total Variable Costs Per Acre | Total Variable Costs | Per Acre Costs |
|--------------------------------|-------|-------------------------------|----------------------|----------------|
| Corn                           | 126   | \$ 310                        | \$ 39,060            | \$ xxx         |
|                                |       |                               |                      | xxx            |
|                                |       |                               |                      | xxx            |
|                                |       |                               |                      | xxx            |
|                                |       |                               |                      | xxx            |
| <b>B. TOTAL VARIABLE COSTS</b> | 126   | xxx                           | \$ 39,060            | \$310.00       |

◆ **Total Fixed Costs, Labor, and Management<sup>3</sup>**

|   |     |             |                     |           |
|---|-----|-------------|---------------------|-----------|
| Crop Machinery Costs: Machinery Value/Acre                      |     |             | \$ 208.00           |           |
| Depreciation  | 10  | Years       | \$ 20.80            |           |
| Interest on Avg. Investment                                     | 10  | %           | \$ 10.40            |           |
| Taxes   |     | %           | \$                  |           |
| Insurance   | .25 | %           | \$ 0.52             |           |
| <b>C. TOTAL FIXED COSTS</b>                                     |     |             |                     | \$ 31.72  |
| <b>D. LABOR CHARGE<sup>4</sup></b>                              | 2.5 | Hours/Acres | \$ 9.00 /Hour       | \$ 22.50  |
| <b>E. MANAGEMENT CHARGE</b>                                     | 10  | %           | of Total Crop Value | \$ 36.65  |
| <b>F. TOTAL PRODUCTION COSTS (B+C+D+E)</b>                      |     |             |                     | \$ 400.87 |
| <b>G. AMOUNT WHICH CAN BE PAID FOR CASH RENT PER ACRE (A-F)</b> |     |             |                     | \$ 124.13 |

<sup>1</sup> If whole farm leased on a cash rent basis list crops grown, income from each crop, and variable expenses for each crop.

<sup>2</sup> Use average yields, allowing for both good and bad years. Incorporate trends in yields.

<sup>3</sup> Use current prices and costs. Include government payments in price or as a separate line. Variable costs include fuel, oil, repairs, fertilizer, herbicide, insecticide, interest on operating costs, custom hire, drying, insurance, and miscellaneous costs. See your local or state Extension office for *Farm Management Budgets*.

<sup>4</sup> Labor expense or charge may be included in variable expenses.

**Table 3. Service Building Rental Charge**

| Item                     | Annual Charge |
|--------------------------|---------------|
| Building: _____          |               |
| Investment: \$ _____     |               |
| Depreciation _____ Yrs.  | \$ _____      |
| Interest _____ %         | \$ _____      |
| Repairs _____ %          | \$ _____      |
| Taxes _____ %            | \$ _____      |
| Insurance _____ %        | \$ _____      |
| Total rental value _____ | \$ _____      |

## Part V

### Putting The Agreement in Writing

A copy of a crop-share or cash-lease agreement form is included in this publication. Some of the advantages of a written agreement are

1. It encourages a detailed statement of the agreement that assures a better understanding by both parties.
2. It serves as a reminder of the terms originally agreed upon.
3. It provides a valuable guide for the heirs if either the tenant or landlord dies. The agreement should be carefully reviewed each year to ensure the terms of the agreement are still applicable and desirable.
4. It serves as documentation for tax purposes.

Every lease should include certain items. These are the names of the parties involved, an accurate description of the property being rented, the beginning and ending dates of the agreement, the amount of rent to be paid, a statement of how and when the rent is to be paid, and the signatures of the parties involved.

These minimal provisions alone, however, fail to meet all the requirements of a good lease. These provisions provide no guidance on how the land is to be used, nor do they outline possible problem areas and solutions. No indication of the rights and responsibilities of either party are provided.

A good lease should clearly identify the property being rented. If the landlord wishes to reserve the use of certain improvements on the land, these reservations should be clearly stated in the lease.

Absent a statutory or constitutional limitation, the duration of the lease can be any length of time agreed upon by the parties. Most leases are for at least one full year. Tenants sometimes request leases for more than one year, particularly if they must invest more capital in equipment or improvements needed on the farm being rented.

In general, most transactions involving real estate require a contract in writing to be enforceable. In most states, oral leases for not more than a year are enforceable.

Landlords, as well as tenants, should enter long-term leases only after very careful consideration. It should be remembered that the lease is a contract — a contract that “marries” the parties to undesirable and desirable provisions alike. Often, it is better to include an automatic renewal clause and a provision for compensation for unexhausted improvements made by the tenant.

The sample lease contained in this bulletin provides for most concerns of both the tenant and landlord. The parties can cross out or omit unwanted provisions. (Both parties must initial these lease changes.) Before provisions are eliminated, the landlord and tenant should remember that one of the functions of a written lease is to anticipate possible developments and to state how to handle such problems if they actually do develop.

**Worksheet 1. Crop Approach to Irrigation Crop-share Arrangements**

**System Type:**

**Acres:**

**Location:**

| Line  | Value       |                       |   | Rate or Life | Per Acre Charge <sup>2</sup> | Location: |        |
|---|-------------|-----------------------|---|--------------|------------------------------|-----------|--------|
|   | Total Acres | Per Acre <sup>1</sup> |   |              |                              | Landlord  | Tenant |
| 1. Land (Undeveloped)   | \$ _____    | \$ _____              | x | .06          | \$                           | \$        | \$     |
| 2. Land Real-estate Tax   |             |                       | x | .005         | \$                           | \$        | \$     |
| 3. Land Development   | \$ _____    | \$ _____              | x | .06          | \$                           | \$        | \$     |
| 4. Development Real-estate Tax  |             |                       | x | .005         | \$                           | \$        | \$     |
| 5. Well ( _____ ft.)  | \$ _____    | \$ _____              | x | .05          | \$                           | \$        | \$     |
| 6. Well Depreciation  |             |                       | ÷ | 15 Yr.       | \$                           | \$        | \$     |
| 7. Pump   | \$ _____    | \$ _____              | x | .05          | \$                           | \$        | \$     |
| 8. Pump Depreciation  |             |                       | ÷ | 15 Yr.       | \$                           | \$        | \$     |
| 9. Gear Head  | \$ _____    | \$ _____              | x | .05          | \$                           | \$        | \$     |
| 10. Gear Head Depreciation  |             |                       | ÷ | 15 Yr.       | \$                           | \$        | \$     |
| 11. Power Unit/Meter  | \$ _____    | \$ _____              | x | .05          | \$                           | \$        | \$     |
| 12. Power Unit/Meter Depreciation   |             |                       | ÷ | 7 Yr.        | \$                           | \$        | \$     |
| 13. System  | \$ _____    | \$ _____              | x | .05          | \$                           | \$        | \$     |
| 14. System Depreciation   |             |                       | ÷ | 10 Yr.       | \$                           | \$        | \$     |
| 15. Irrigation Equipment Repairs  | XXXXXX      | \$ _____              | x | .01          | \$                           | \$        | \$     |
| 16. Irrigation Equipment Taxes and Insurance  |             |                       | x | .0025        | \$                           | \$        | \$     |
| 17. Labor   | XXXXXX      | hrs.                  | x | \$ _____/hr. | \$                           | \$        | \$     |
| 18. Crop Machinery  |             |                       | x | .05          | \$                           | \$        | \$     |
| 19. Crop Machinery Depreciation   | XXXXXX      | \$ _____              | ÷ | 10 Yr.       | \$                           | \$        | \$     |
| 20. Machinery Repairs Taxes and Insurance   |             |                       | x | .11          | \$                           | \$        | \$     |
| 21. Management <sup>3</sup>   | XXXXXX      | \$                    | x | .02          | \$                           | \$        | \$     |
| 22. Fertilizer  |             |                       |   |              | \$                           | \$        | \$     |
| 23. Seed  |             |                       |   |              | \$                           | \$        | \$     |
| 24. Irrigation Fuel   |             |                       |   |              | \$                           | \$        | \$     |
| 25. Crop Fuel   |             |                       |   |              | \$                           | \$        | \$     |
| 26. Herbicide   |             |                       |   |              | \$                           | \$        | \$     |
| 27. Insecticide   |             |                       |   |              | \$                           | \$        | \$     |
| 28. Crop Insurance  |             |                       |   |              | \$                           | \$        | \$     |
| 29. Harvesting <sup>5</sup>   |             |                       |   |              | \$                           | \$        | \$     |
| 30. Drying  |             |                       |   |              | \$                           | \$        | \$     |
| 31. Hauling <sup>5</sup>  |             |                       |   |              | \$                           | \$        | \$     |
| 32. Other   |             |                       |   |              | \$                           | \$        | \$     |
| 33. TOTAL ALL COSTS (Lines 1-32)  |             |                       |   |              | \$                           | \$        | \$     |
| 34. Percent Crop Share [line 33 Landlord (Tenant) ÷ line 33 Per Acre Charge]          |             |                       |   |              | 100%                         | %         | %      |
| 35. Insecticide   |             |                       |   |              | \$                           | \$        | \$     |
| 36.   |             |                       |   |              | \$                           | \$        | \$     |
| 37.   |             |                       |   |              | \$                           | \$        | \$     |
| 38.   |             |                       |   |              | \$                           | \$        | \$     |
| 39.   |             |                       |   |              | \$                           | \$        | \$     |
| 40. Adjusted Total (Line 33 + Lines 35-39)  |             |                       |   |              | \$                           | \$        | \$     |
| 41. Adjusted Percent Crop Share [line 40 Landlord (Tenant) ÷ line 40 Per Acre Charge] |             |                       |   |              | 100%                         | %         | %      |

<sup>1</sup> Per acre value based on number of acres irrigated, which may be 126 acres for center pivot.

<sup>2</sup> Obtain "Per Acre Charge" by multiplying, or dividing, per acre value by rate or life.

<sup>3</sup> Management charge based on average investment in land, land development, irrigation equipment, and crop machinery.

<sup>4</sup> For operating expenses (lines 22 through 32), enter only the value of items not shared between the landlord and tenant.

<sup>5</sup> Harvesting and hauling costs may be included in crop machinery and fuel-oil expenses.

**Worksheet 2. Landlord Ownership Costs as Basis for Fixed Cash Rent**

| Crop(s) grown:                  | System type:         | Acres:       | Year:                  |
|---------------------------------|----------------------|--------------|------------------------|
| Item                            | Total per acre value | Rate or life | Per acre annual charge |
| 1. Land (Undeveloped)           | \$ _____             |              |                        |
| Interest                        |                      | X _____ %    | \$ _____               |
| Real estate tax <sup>1</sup>    |                      | X _____ %    | \$ _____               |
| 2. Land (Developed)             | \$ _____             |              |                        |
| Interest                        |                      | X _____ %    | \$ _____               |
| Real estate tax                 |                      | X _____ %    | \$ _____               |
| 3. Irrigation equipment         | \$ _____             |              |                        |
| Depreciation <sup>2</sup>       |                      | ÷ _____ yrs  | \$ _____               |
| Interest                        |                      | X _____ %    | \$ _____               |
| Repairs                         |                      | X _____ %    | \$ _____               |
| Insurance-Taxes                 |                      | X _____ %    | \$ _____               |
| 4. Buildings                    | \$ _____             |              |                        |
| Depreciation                    |                      | ÷ _____ yrs  | \$ _____               |
| Interest                        |                      | X _____ %    | \$ _____               |
| Repairs                         |                      | X _____ %    | \$ _____               |
| Insurance-Taxes                 |                      | X _____ %    | \$ _____               |
| 5. Other investment items       | \$ _____             |              |                        |
| _____                           |                      | ÷ _____ yrs  | \$ _____               |
| _____                           |                      | X _____ %    | \$ _____               |
| _____                           |                      | X _____ %    | \$ _____               |
| _____                           |                      | X _____ %    | \$ _____               |
| 6. Total cash or desired return |                      |              | \$ _____               |

<sup>1</sup> Real estate tax computed on the value of land, land development, well, pump, and gearhead.

<sup>2</sup> Years of life vary by type of irrigation equipment.

<sup>3</sup> Do not compute an interest charge if value of buildings, improvements, etc., are included in value of land.

**Worksheet 3. Converting Landlord's Net Share Rent to Cash Rental Rate<sup>1</sup>**

◆ Landlord's Share of Gross Crop Value

| Crops                  | Acres | Yield per Acre <sup>2</sup> | Landlord's Share |                |                               |    | Total Value | Per-acre Value |
|------------------------|-------|-----------------------------|------------------|----------------|-------------------------------|----|-------------|----------------|
|                        |       |                             | Percent of Crop  | Tons or Bushel | \$/Ton or Bushel <sup>3</sup> |    |             |                |
|                        |       |                             |                  |                | \$                            | \$ | xxx         |                |
|                        |       |                             |                  |                |                               |    | xxx         |                |
|                        |       |                             |                  |                |                               |    | xxx         |                |
|                        |       |                             |                  |                |                               |    | xxx         |                |
|                        |       |                             |                  |                |                               |    | xxx         |                |
| A. TOTAL CROP RECEIPTS |       |                             |                  |                |                               | \$ | \$          |                |

◆ Landlord's Share of Shared Expenses<sup>3</sup>

| Crops                  | Fert. | Harvest Drying | Irrig. Fuel | Herb. Insect. | Total Cost | Per Acre Cost |
|------------------------|-------|----------------|-------------|---------------|------------|---------------|
|                        | \$    | \$             | \$          | \$            | \$         | xxx           |
|                        |       |                |             |               |            | xxx           |
|                        |       |                |             |               |            | xxx           |
|                        |       |                |             |               |            | xxx           |
|                        |       |                |             |               |            | xxx           |
| B. TOTAL CROP EXPENSES |       |                |             |               | \$         | \$            |

|  |          |
|--|----------|
| Landlord's Crop Rent (A - B) .....       | \$ _____ |
| Less Risk Shifted to Tenant .....        | \$ _____ |
| Net Landlord's Share Rent Per Acre ..... | \$ _____ |

<sup>1</sup> If whole farm leased on a cash rent basis list all crops grown, income from each crop, and shared expenses for each crop.

<sup>2</sup> Use average yields, allowing for both good and bad years. Incorporate trends in yields.

<sup>3</sup> Use current prices and costs. Include government payments in price or as separate line.

**Worksheet 4. Amount of Cash Rent Tenant Can Afford to Pay <sup>1</sup>**

**◆ Gross Value of Crops Produced**

| Crops               | Acres | Yield/Acre <sup>2</sup> | Price/Ton or Bushel <sup>3</sup> | Total Value | Per Acre Value |
|---------------------|-------|-------------------------|----------------------------------|-------------|----------------|
|                     |       |                         | \$                               | \$          | \$ xxx         |
|                     |       |                         |                                  |             | xxx            |
|                     |       |                         |                                  |             | xxx            |
|                     |       |                         |                                  |             | xxx            |
|                     |       |                         |                                  |             | xxx            |
| A. TOTAL CROP VALUE |       |                         |                                  | \$          | \$             |

**◆ Total Variable Costs<sup>3</sup>**

| Crops                   | Acres | Total Variable Costs Per Acre | Total Variable Costs | Per Acre Costs |
|-------------------------|-------|-------------------------------|----------------------|----------------|
|                         |       | \$                            | \$                   | \$ xxx         |
|                         |       |                               |                      | xxx            |
|                         |       |                               |                      | xxx            |
|                         |       |                               |                      | xxx            |
|                         |       |                               |                      | xxx            |
| B. TOTAL VARIABLE COSTS |       | xxx                           | \$                   | \$             |

**◆ Total Fixed Costs, Labor, and Management <sup>3</sup>**

|  |  |  |                     |          |
|--|--|--|---------------------|----------|
| Crop Machinery Costs: Machinery Value/Acre                     |  |  | \$ _____            |          |
| Depreciation _____ Years                                       |  |  | \$ _____            |          |
| Interest on Avg. Investment _____ %                            |  |  | \$ _____            |          |
| Taxes _____ %  |  |  | \$ _____            |          |
| Insurance _____ %  |  |  | \$ _____            |          |
| C. TOTAL FIXED COSTS   |  |  |                     | \$ _____ |
| D. LABOR CHARGE <sup>4</sup> _____ Hours/Acres                 |  |  | \$ _____ /Hour      | \$ _____ |
| E. MANAGEMENT CHARGE _____ %                                   |  |  | of Total Crop Value | \$ _____ |
| F. TOTAL PRODUCTION COSTS (B+C+D+E) .....                      |  |  |                     | \$ _____ |
| G. AMOUNT WHICH CAN BE PAID FOR CASH RENT PER ACRE (A-F) ..... |  |  |                     | \$ _____ |

<sup>1</sup> If whole farm leased on a cash rent basis list crops grown, income from each crop, and variable expenses for each crop.

<sup>2</sup> Use average yields, allowing for both good and bad years. Incorporate trends in yields.

<sup>3</sup> Use current prices and costs. Include government payments in price or as a separate line. Variable costs include fuel, oil, repairs, fertilizer, herbicide, insecticide, interest on operating costs, custom hire, drying, insurance, and miscellaneous costs. See your local or state Extension office for *Farm Management Budgets*.

<sup>4</sup> Labor expense or charge may be included in variable expenses.



**Irrigation Crop-share or Crop-share/Cash Farm Lease**

**North Central Regional  
Publication No. 106 (Revised 1996)**

This form can provide the landlord and tenant with a guide for developing an agreement to fit their individual situation. This form is not intended to take the place of legal advice pertaining to contractual relationships between the two parties. Because of the possibility that a farm operating agreement may be legally considered a partnership under certain conditions, seeking proper legal advice is recommended when developing such an agreement.

This lease entered into this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_, between \_\_\_\_\_, landlord, of \_\_\_\_\_ (address)

\_\_\_\_\_, spouse, of \_\_\_\_\_ (address)

hereafter known as "the landlord," and \_\_\_\_\_, tenant, of \_\_\_\_\_ (address)

\_\_\_\_\_, spouse, of \_\_\_\_\_ (address)

hereafter known as "the tenant."

**I. PROPERTY DESCRIPTION**

The landlord hereby leases to the tenant, to occupy and use for agricultural and related purposes, the following described property: \_\_\_\_\_

\_\_\_\_\_ consisting of approximately \_\_\_\_\_ acres situated in \_\_\_\_\_ County (Counties), \_\_\_\_\_ (State) with all improvements thereon except as follows: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**II. GENERAL TERMS OF LEASE**

- A. Time period covered. The provisions of this agreement shall be in effect for \_\_\_\_\_ year(s), commencing on the \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_. This lease shall continue in effect from year to year thereafter unless written notice of termination is given by either party to the other at least \_\_\_\_\_ days prior to expiration of this lease or the end of any year of continuation.
- B. Review of lease. A written request is required for a general review of the lease or for consideration of proposed changes by either party, at least \_\_\_\_\_ days prior to the final date for giving notice to terminate the lease as specified in II-A.
- C. Amendments and alterations. Amendments and alterations to this lease shall be in writing and shall be signed by both the landlord and tenant.
- D. No partnership intended. It is particularly understood and agreed that this lease shall not be deemed to be, nor intended to give rise to, a partnership relation.

- E. Transfer of property. If the landlord should sell or otherwise transfer title to the farm, such action will be done subject to the provisions of this lease.
- F. Right of entry. The landlord, as well as agents and employees of the landlord, reserve the right to enter the farm at any reasonable time to: a) consult with the tenant; b) make repairs, improvements, and inspections; and c) (after notice of termination of the lease is given) do tillage, seeding, fertilizing, and any other customary seasonal work, none of which is to interfere with the tenant in carrying out regular farm operations.
- G. No right to sublease. The landlord does not convey to the tenant the right to lease or sublet any part of the farm or to assign the lease to any person or persons whomsoever.
- H. Binding on heirs. The provisions of this lease shall be binding upon the heirs, executors, administrators, and successors of both landlord and tenant in like manner as upon the original parties, except as provided by mutual written agreement.
- I. Landlord's lien for rent and performance. The landlord's lien provided by law on crops grown or growing shall be the security for the rent herein specified and for the faithful performance of the terms of the lease. If the tenant fails to pay the rent due or fails to keep the agreements of this lease, all costs and attorney fees of the landlord in enforcing collection or performance shall be added to and become a part of the obligations payable by the tenant hereunder.
- J. Additional provisions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Table 1. — Landlord's Share (% or \$) of Crops and Crop Expenses**

|                              | Corn<br>example | Corn | Grain<br>sorghum | Small<br>grain |
|------------------------------|-----------------|------|------------------|----------------|
| SHARE OF CROPS               | 50%             |      |                  |                |
| SHARE OF CROP EXPENSES:      |                 |      |                  |                |
| Fertilizer:                  |                 |      |                  |                |
| Materials                    | 50%             |      |                  |                |
| Application                  | 50%             |      |                  |                |
| Herbicide:                   |                 |      |                  |                |
| Materials                    | 50%             |      |                  |                |
| Application                  |                 |      |                  |                |
| Insecticide:                 |                 |      |                  |                |
| Materials                    | 50%             |      |                  |                |
| Application                  |                 |      |                  |                |
| Seed                         | 50%             |      |                  |                |
| Lime, rock phosphate*        | 100%            |      |                  |                |
| Harvesting (per acre)        |                 |      |                  |                |
| Drying                       | 50%             |      |                  |                |
| Baling                       |                 |      |                  |                |
| Delivery to:                 |                 |      |                  |                |
| Storage/bushel               |                 |      |                  |                |
| Market/bushel                |                 |      |                  |                |
| SHARE OF IRRIGATION EXPENSES |                 |      |                  |                |
| Well Repairs                 | 100%            |      |                  |                |
| Pump Repairs                 | 100%            |      |                  |                |
| Gear Head Rep.               | 100%            |      |                  |                |
| Power Unit Rep.              | 100%            |      |                  |                |
| System Repairs               |                 |      |                  |                |
| Land Maintenance             |                 |      |                  |                |
| Irrigation Fuel              |                 |      |                  |                |
| Power Replace                |                 |      |                  |                |
| System Replace               |                 |      |                  |                |
| Labor                        |                 |      |                  |                |
| Other:                       |                 |      |                  |                |
|                              |                 |      |                  |                |
|                              |                 |      |                  |                |
|                              |                 |      |                  |                |
|                              |                 |      |                  |                |
|                              |                 |      |                  |                |

\*Lime, rock phosphate, and other fertilizers having more than one year of life paid by the tenant should be recorded in the compensation table in Section V-C-2.

**III. LAND USE**

A. General provisions. The land described in Section I will be used in approximately the following manner. If it is impractical in any year to follow such a land-use plan, appropriate adjustments will be made by mutual written agreement between the parties.

|                    | Dry   | Irrigated |       |
|--------------------|-------|-----------|-------|
| 1. Cropland        |       |           |       |
| a) Corn            | _____ | _____     | Acres |
| b) Grain Sorghum   | _____ | _____     | Acres |
| c) Wheat           | _____ | _____     | Acres |
| d) Sugar Beets     | _____ | _____     | Acres |
| e) Silage          | _____ | _____     | Acres |
| f) Alfalfa         | _____ | _____     | Acres |
| g) Pasture         | _____ | _____     | Acres |
| h) Other           | _____ | _____     | Acres |
| i)                 | _____ | _____     | Acres |
| j)                 | _____ | _____     | Acres |
| k)                 | _____ | _____     | Acres |
| <b>TOTAL ACRES</b> | _____ | _____     | Acres |

B. Restrictions. The maximum acres harvested as silage shall be \_\_\_\_\_ acres unless it is mutually decided otherwise. The pasture stocking rate shall not exceed:  
 PASTURE IDENTIF.                      ANIMAL UNITS/ACRE

|       |       |
|-------|-------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

(1000-pound mature cow is equivalent to one animal unit.)

Other restrictions are:

\_\_\_\_\_

C. Government programs. The extent of participation in government programs will be discussed and decided on an annual basis. The course of action agreed upon should be placed in writing and be signed by both parties. A copy of the course of action so agreed upon shall be made available to each party.

**IV. CROP-SHARE CASH RENT AND RELATED PROVISIONS**

A. General agreement. (1) The tenant agrees to pay as rent for the use of the land the share of crops shown in Table 1 of this section. The tenant also agrees to furnish all labor, machinery, and cash operating expenses except for landlord's share (percent and/or dollar charge per unit) indicated in Table 1. (2) Other provisions relative to Table 1.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

B. Other crop-share cash agreements.

1. Operating expenses. Additional agreements relative to the sharing of expenses are as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. Storage, landlord's crop. At the landlord's request, the tenant agrees to store as much of the landlord's share of the crops as possible, using storage space reserved by the landlord and not to exceed \_\_\_\_\_ percent of the storage space not specifically reserved.

3. Delivery of grain. The tenant agrees to deliver the landlord's share of crops at a place and at a time the landlord shall designate, not more than \_\_\_\_\_ miles distance at the charge shown in Table 1 of this section. Additional agreements are:

\_\_\_\_\_

\_\_\_\_\_

4. Cash rent on non-shared items. The tenant agrees to pay cash rent annually for the use of the following non-shared items.

**Table 2 — Amount of Annual Cash Rent**  
(Complete at beginning of lease)

|                              | Total           |
|------------------------------|-----------------|
| Pasture .....                | \$ _____        |
| Hayland: _____               | \$ _____        |
| _____                        | \$ _____        |
| Farmstead: Dwelling .....    | \$ _____        |
| Service bldgs. ....          | \$ _____        |
| Timber and waste .....       | \$ _____        |
| <b>TOTAL CASH RENT .....</b> | <b>\$ _____</b> |

Payment of cash rent: The tenant agrees to pay cash rent as follows:

- \$ \_\_\_\_\_ on or before \_\_\_\_\_ day of \_\_\_\_\_ (month)
- \$ \_\_\_\_\_ on or before \_\_\_\_\_ day of \_\_\_\_\_ (month)
- \$ \_\_\_\_\_ on or before \_\_\_\_\_ day of \_\_\_\_\_ (month)
- \$ \_\_\_\_\_ on or before \_\_\_\_\_ day of \_\_\_\_\_ (month)

If rent is not paid when due, the tenant agrees to pay interest on the amount of unpaid rent at the rate of \_\_\_\_\_ percent per annum from the due date until paid.

5. Pasturing. The tenant will prevent damage to cropland and growing crops by livestock.

6. Home use. The tenant and landlord may take for home use the following kinds and quantities of jointly owned crops: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

7. Buying and selling. The landlord and tenant will buy and sell jointly owned property according to the following agreement: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

8. Division of property. At the termination of this lease, all jointly owned property will be divided or disposed of as follows: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**V. OPERATION AND MAINTENANCE OF FARM**

In order to operate this farm efficiently and to maintain it in a high state of productivity, the parties agree as follows:

**A. The tenant agrees:**

1. General maintenance. To provide the labor necessary to maintain the farm and its improvements during the rental period in as good condition as it was at the beginning. Normal wear and depreciation and damage from causes beyond the tenant's control are excepted.
2. Land use. Not to: a) plow pasture or meadowland, b) cut live trees for sale or personal use, or c) pasture new seedings of legumes and grasses in the year they are seeded without consent of the landlord.
3. Insurance. Not to house automobiles, trucks, or tractors in barns, or otherwise violate restrictions in the landlord's insurance policies without written consent from the landlord. Restrictions to be observed are as follows: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. Noxious weeds. To use diligence to prevent noxious weeds from going to seed on the farm. Treatment of the noxious weed infestation and cost thereof shall be handled as follows: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. Addition of improvements. Not to: a) erect or permit to be erected on the farm any nonremovable structure or building, b) incur any expense to the landlord for such purposes, or c) add electrical wiring, plumbing, or heating to any building without written consent of the landlord.
6. Conservation. Control soil erosion according to an approved conservation plan; keep in good repair all terraces, open ditches, inlets and outlets of tile drains; preserve all established watercourses or ditches including grassed waterways; and refrain from any operation or practice that will injure such structures.
7. Damages. When leaving the farm, to pay the landlord reasonable compensation for any damages to the farm for which the tenant is responsible. Any decrease in value due to ordinary wear and depreciation or damages outside the control of the tenant are excepted.
8. Costs of operation. To pay all costs of operation except those specifically referred to in Sections IV, V-A-4, and V-B.
9. Repairs. Not to buy materials for maintenance and repairs in an amount in excess of \$ \_\_\_\_\_ within a single year without written consent of the landlord.

**B. The landlord agrees:**

1. Loss replacement. To replace or repair as promptly as possible the dwelling or any other building or equipment regularly used by the tenant that may be destroyed or damaged by fire, flood, or other cause beyond the control of the tenant or to make rental adjustments in lieu of replacements.
2. Materials for repairs. To furnish all material needed for normal maintenance and repairs.
3. Skilled labor. To furnish any skilled labor tasks that the tenant is unable to perform satisfactorily. Additional agreements regarding materials and labor are: \_\_\_\_\_  
\_\_\_\_\_
4. Reimbursement. To pay for materials purchased by the tenant for purposes of repair and maintenance in an amount not to exceed \$ \_\_\_\_\_ in any one year, except as otherwise agreed upon. Reimbursement shall be made within \_\_\_\_\_ days after the tenant submits the bill.
5. Removable improvements. Let the tenant make minor improvements of a temporary or removable nature, which do not mar the condition or appearance of the farm, at the tenant's expense. The landlord further agrees to let the tenant remove such improvements even though they are legally fixtures at any time this lease is in effect or within \_\_\_\_\_ days thereafter, provided the tenant leaves in good condition that part of the farm from which such improvements are removed. The tenant shall have no right to compensation for improvements that are not removed except as mutually agreed.
6. Compensation for crop expenses. To reimburse the tenant at the termination of this lease for field work done and for other crop costs incurred for crops to be harvested during the following year. Unless otherwise agreed, current custom rates for the operations involved will be used as a basis of settlement.

**C. Both agree:**

1. Not to obligate other party. Neither party hereto shall pledge the credit of the other party hereto for any purpose whatsoever without the consent of the other party. Neither party shall be responsible for debts or liabilities incurred, or for damages caused by the other party.
2. Capital improvements. Costs of establishing hay or pasture seedings, new conservation structures, improvements (except as provided in Section V-B-5), or of applying lime and other longlived fertilizers shall be divided between landlord and tenant as set forth in the following table. The tenant will be reimbursed by the landlord either when the improvement is completed, or the tenant will be compensated for the share of the depreciated cost of the tenant's contribution when the lease ends based on the value of the tenant's contribution and depreciation rate shown in the "Compensation for Improvements" table. (Cross out the portion

of the preceding sentence which does not apply.) Rates for labor, power and machinery contributed by the tenant shall be agreed upon before construction is started.

3. Mineral rights. Nothing in this lease shall confer upon the tenant any right to minerals underlying said land, but same are hereby reserved by the landlord together with the full right to enter upon the premises and to bore, search, and excavate for same, to work and remove same, and to deposit excavated rubbish, and with full liberty to pass over said premises with vehicles and lay down and work any railroad track or tracks, tanks, pipelines, power lines, and structures as may be necessary or convenient for the above purpose. The landlord agrees to

reimburse the tenant for any actual damage suffered for crops destroyed by these activities and to release the tenant from obligation to continue farming this property when development of mineral resources interferes materially with the tenant's opportunity to make a satisfactory return.

**VI. ARBITRATION OF DIFFERENCES**

Any differences between the parties as to their several rights or obligations under this lease that are not settled by mutual agreement after thorough discussion, shall be submitted for arbitration to a committee of three disinterested persons, one selected by each party hereto and the third by the two thus selected. The committee's decision shall be accepted by both parties.

**Compensation for Improvements Table**

| Type of improvement  | Date to be completed | Estimated total cost | Proportion to be contributed by tenant |                 |       | Total value of tenant's contrib.* | Rate of annual depreciation |
|----------------------|----------------------|----------------------|--|-----------------|-------|-----------------------------------|-----------------------------|
|                      |                      |                      | Material                               | Unskilled labor | Mach. |                                   |                             |
| Irr. Well            |                      | \$                   | %                                      | %               | %     | \$                                | %                           |
| Underground Pipe     |                      | \$                   | %                                      | %               | %     | \$                                | %                           |
| Land Dev.            |                      | \$                   | %                                      | %               | %     | \$                                | %                           |
| Tailwater Structures |                      | \$                   | %                                      | %               | %     | \$                                | %                           |
| Power Lines          |                      | \$                   | %                                      | %               | %     | \$                                | %                           |
| Other                |                      | \$                   | %                                      | %               | %     | \$                                | %                           |

\*To be recorded when improvement is completed.

Executed in duplicate on the date first above written:

\_\_\_\_\_  
 (tenant)  
 \_\_\_\_\_  
 (tenant's spouse)

\_\_\_\_\_  
 (landlord)  
 \_\_\_\_\_  
 (landlord's spouse)

STATE OF \_\_\_\_\_  
 COUNTY OF \_\_\_\_\_

On this \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_\_, before me, the undersigned, a Notary Public in said State, personally appeared \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ to me known to be the identical persons named in and who executed the foregoing instrument, and acknowledged that they executed the same as their voluntary act and deed.

\_\_\_\_\_  
 Notary Public

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NCR-75, *Fixed and Flexible Cash Rental Arrangements for Your Farm*  
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