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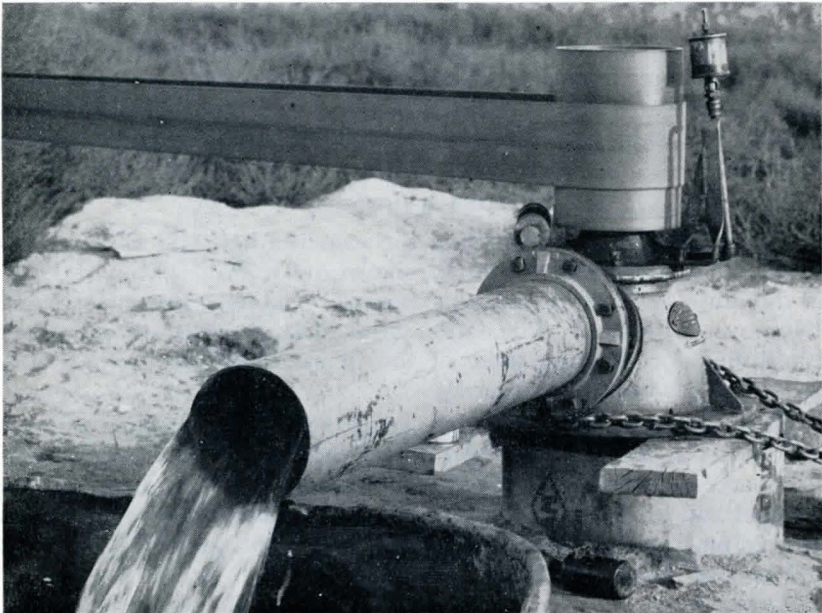
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# Leasing Arrangements on Pump-Irrigated Farms

Adams, Clay, Fillmore, Hamilton and York Counties  
Nebraska, 1948-1949



Extension Service  
University of Nebraska College of Agriculture  
and U. S. Department of Agriculture  
Cooperating

# Leasing Arrangements on Pump-Irrigated Farms

Adams, Clay, Fillmore, Hamilton and York Counties  
Nebraska, 1948-1949

F. J. CHASE AND L. F. SNIPES<sup>1</sup>

THE INFORMATION in this circular was obtained from 38 tenants on pump-irrigated farms. These farms are located in the Loess Plains area of south central Nebraska. The data were obtained by the survey method and represent the conservative estimates of the farmers visited.

## Purpose

This survey was made to find out how the contributions, expenses and income are divided between the landowners and farm operators on pump-irrigated rented farms in the area. It is hoped that this information will help landlords and tenants in arranging their leasing contracts.

## Results of the Survey

The various ways of dividing the contributions and expenses between the landlord and tenant are shown in Table 1. These are listed in the table as "Cash operating expenses," "Capital investments," and "Non-cash expenses." The table shows that there is no fixed way established for dividing some of the items, while the responsibility for others has been determined.

**Cash operating expenses.** As a general rule, the landlord pays for the repairs of the buildings and improvements, the legume seed, real estate taxes and his own share of the personal tax. The tenant pays for the fuel and oil for field work, the corn and small grain seed, repairs on field machinery, custom field work, hired labor, incidental expenses and his own personal tax.

Other items of expense such as repairs on the well, casing, and pump, ditch repair, floating, power used in pumping, weed spraying, commercial fertilizer, and irrigation machinery and equipment repairs (see footnote bottom of Table 1) appear to be divided to fit the conditions or requirements of the particular farm. These are the newer items of expense that have come into the farming business within the last few years. When such items come into the business on rented farms, they should be examined carefully in order to keep the lease contract fair between the landlord and tenant.

<sup>1</sup> Extension Economists in Farm Management.

TABLE 1.—*Division of contributions\* and expenses on 38 pump-irrigated rented farms in Adams, Clay, Fillmore, Hamilton and York counties, Nebraska, 1948 and 1949.*

Items	Number of farms showing various ways of paying contributions and expenses					No expense incurred
	All by landlord	All by tenant	Share paid by tenant			
			One- third	Two- fifths	One- half	
Cash operating expenses						
Repairs for buildings and improvements	23	5	....	1	1	8
Repairs for well, casing, pump	15	9	....	....	....	14
Repairs for ditches, floating	12	13	....	....	1	12
Repairs for field machinery	....	37	....	....	1	....
Repairs for irrigation equipment †	20	9	1	1	3	4
Fuel and oil for field work	....	35	....	....	3	....
Power used in pumping	12	11	6	4	5	....
Custom field work	1	29	....	....	3	5
Hired labor	1	35	....	....	1	1
Legume seed	21	3	1	....	5	8
Corn and small grain	....	33	....	1	4	....
Weed spraying	7	12	2	....	2	15
Commercial fertilizer	3	2	8	12	8	5
Real estate tax	38	....	....	....	....	....
(Each party paid his share according to division of personal property)						
Other expenses not listed	1	36	....	....	....	1
Capital investments						
Land	38	....	....	....	....	....
Buildings and improvements	28	2	....	1	....	7
Irrigation well, pump, casing and spilling basin	15	19	....	....	4	....
Field machinery	....	36	....	....	2	....
Power for pumping	22	15	....	....	1	....
Permanent ditches	12	7	1	....	....	18
Land leveling	23	9	1	....	....	5
Non-cash expenses						
Depreciation* on						
Buildings and improvements	29	2	....	....	....	7
Field machinery	....	36	....	....	2	....
Well, casing, pump	15	19	....	....	4	....
Power machinery for pumping	22	15	....	....	1	....
Unpaid labor*	....	38	....	....	....	....

\* Contributions are capital investments, depreciation and unpaid labor.

† Irrigation equipment is canvas dams, siphon tubes, lath boxes, wooden boxes, etc.

**Capital investments.** The landlord always furnishes the land, and in most cases the buildings and improvements. The tenant furnishes the field machinery on the majority of the farms. Other capital items are furnished sometimes by one, sometimes by the other and sometimes by both parties. This division depends upon the circumstances.



**Non-cash expenses.** These are depreciation and the unpaid operator and family labor. Depreciation is carried by the party who owns the particular capital asset. Unless otherwise provided, the unpaid labor is furnished by the operator and his family.

**General leasing arrangements.** Thirty-five of the farms visited had crop-share leases. Only a few of the renters on these farms paid some cash for buildings and pasture in addition to the crop. Three farms had fifty-fifty livestock-share leases. One-half of the contracts were written, the other half oral. All contracts were for one year. One contract had provisions to make adjustments at the end of the year for any unfairness that might exist in the division of expenses and income. None of them had provisions for renewing the lease before the contract ended.

Three-fourths of the farms in the survey had cropping systems or crop rotations worked out for the irrigable fields. Most of the farms with crop-share leases were cash grain farms. The most common cropping system was two or three years of corn, one year of oats and sweet-clover, or one year of oats and one year of sweetclover. Commercial fertilizer was generally used on the third year and sometimes on the second year of corn. There seemed to be a close workable relationship between the landlord and tenant on many of the farms.

**Division of the crop.** The division of the crops raised varied, as shown in Table 2. Corn was divided one-third and two-thirds on about 33 per cent of the farms, two-fifths and three-fifths on 50 per cent of the farms, and one-half and one-half on about 17 per cent of the farms.

All small grains were divided one-third and two-thirds on 65 per cent of the farms, two-fifths and three-fifths on 10 per cent of the farms, and one-half and one-half on 25 per cent of the farms. Small grains were not irrigated.

Alfalfa was divided one-half and one-half on 35 per cent of the farms. The tenant paid cash rent for the alfalfa on 25 per cent of the farms. Forty per cent of the farms in the survey did not have any alfalfa.

TABLE 2.—*Division of crops on 38 pump-irrigated rented farms in Adams, Clay, Fillmore, Hamilton and York counties, Nebraska, 1948 and 1949.*

Kind of crop	Number of farms showing various ways of dividing crops between landlord and tenant				
	Landlord one-third, tenant two-thirds	Landlord two-fifths, tenant three-fifths	Landlord one-half, tenant one-half	Tenant paid cash	Crop not raised
Corn	13	19	6	....	....
All small grain	24	4	10	....	....
Alfalfa	....	....	12	9	17

**Estimating the fairness of the rent.** Table 3 shows the fairness of the rent on 17 of the 38 pump-irrigated rented farms in the survey. It shows the total average value of the contributions and expenses and the receipts from crops. The table also shows what each party (the landlord and tenant) gave on the average to the total, and how much and what per cent each party received from the total crop income.

TABLE 3.—*Division in the value and total per cent of contributions, expenses and receipts, 17 pump-irrigated rented farms in Adams, Clay, Fillmore, Hamilton and York counties, Nebraska, 1948.*

Items	Average of all 17 farms		
	Total share	Landlord's share	Tenant's share
Credit to capital investments			
Four per cent of the total investments	\$1,843	\$1,354	\$ 489
Per cent of the total	100	73	27
Cash operating expenses			
Total cash operating expenses of crop production	\$2,697	\$ 826	\$1,871
Per cent of total cash expenses	100	30	70
Non-cash expenses			
Total non-cash expenses	\$2,584	\$ 430	\$2,154
Per cent of the total	100	17	83
Total of all contributions and expenses	\$7,124	\$2,610	\$4,514
Per cent of the total	100	37	63
Value of receipts from crops			
Total value of receipts from crops	\$10,220	\$4,215	\$6,005
Per cent of the total value of receipts	100	41	59

These figures were obtained from operators (tenants) in the fall of 1948. All figures are estimates of the farmers interviewed. Averages only are shown. The landlords gave 37 per cent and the tenants gave 63 per cent of the contributions and expenses. The landlords received 41 per cent and the tenants 59 per cent of the total estimated receipts.

There is not a great deal of difference between the average portion of the contributions and expenses made by the landlords and tenants and the average portions of the income received by either party. However, there was a wide variation in the percentage of expenses paid and income received by individual landlords and tenants, which is not shown by the table.

Estimating the equity of the rent, sometimes done by the budgeting method explained on page 6, shows the fairness of lease contracts. When used with care the budgeting method will indicate any adjustments that seem advisable.

The values of the capital investments, especially of the land and improvements, are estimates. Their values should be estimated conservatively and very carefully. When possible the landlord and tenant should work together in making the estimates.

Cash expenses should be taken from actual records kept, if such records are available.

Non-cash expenses (depreciation on improvements and machinery and the value of the farm operator's unpaid labor) are estimates and should be conservative.

### **Budgeting Method of Calculating Fairness of Rent on Pump-Irrigated Farms**

The amount of rent and the division of contributions and expenses are the most important decisions that the landlord and tenant have to make in arriving at a good farm lease on a pump-irrigated farm. Under share renting, local custom is often followed in deciding on the shares of the major crops and the livestock enterprise to be paid as rent and in deciding upon the principal contributions in terms of investments and expenses. The equity of the division of income can be tested by comparing the division of the costs with the division of the income or rent. If not divided in the same proportion, then costs and contributions can be adjusted to the division of the income, or vice versa.

Table 4 may be used for making these estimates. Although accurate estimates cannot be made for all items, a full consideration of each item by landlord and tenant working together should go a long way in helping to decide on satisfactory rental terms.

When assigning values to the items, it is helpful to have available for reference good information on typical costs. Such information often can be obtained from the county agricultural agent, or the college of agriculture. Financial records of the particular farm are often the best source of this information. While considering these figures and other information, the tenant and landlord will find it necessary to work together in order to reach an agreement on the values.

Where the entire rent is to be a share of the crops or livestock or both, the contributions can be divided between landlord and tenant (columns D and E) so as to make the customary share rentals equitable, or the shares can be changed to bring the contributions into a fair balance. Where some cash rent is to be paid in addition to share rent, the amount of cash rent can be adjusted so as to equalize expenses and incomes between the two parties. Where only cash rent is to be paid for the entire farm, a further step is necessary. The gross farm income must be estimated. A fair cash rent would be in about the same proportion to this gross income as the landlord's share of expenses is to the total farm expenses.

As an example, suppose estimated total annual contributions and farm expenses were \$8,000 and the landlord and tenant want to share the crops half and half, then contributions and expenses would be



TABLE 4.—Calculating the fairness of rent on pump-irrigated farms.

Items of contributions and expenses	Estimated total value	Estimated interest rate	Estimated annual contributions		
			(C) Whole farm	(D) Landlord's share	(E) Tenant's share
Capital investments					
Land					
Buildings and improvements					
Irrigation well, casing, pump, spilling basin					
Field machinery					
Power machinery for pumping					
Permanent ditches					
Land leveling					
Irrigation equipment, gated pipe, sprinkler systems, etc.					
Non-cash expenses					
Depreciation on					
Buildings and improvements					
Field machinery					
Irrigation well, casing, pump, spilling basin					
Power machinery for pumping					
Unpaid labor					
Annual cash expenses					
Repairs for buildings and improvements					
Repairs for well, casing, pump					
Repairs for ditches, floating					
Repairs for field machinery					
Repairs for irrigation equipment (gated pipe, sprinkler systems, etc.)					
Fuel and oil for field work					
Power used in pumping					
Custom field work					
Hired labor					
Legume seed					
Corn and small grain seed					
Weed spraying					
Spraying for corn borer					
Commercial fertilizer					
Real estate tax					
Personal tax					
Other expenses not listed					
Total annual contributions and expenses					

shared half and half. If the first division of expenses in columns D and E is \$4,500 for the landlord and \$3,500 for the tenant, the two parties will want to adjust selected expenses so that each would pay approximately \$4,000. If some cash rent is to be paid in addition to share rent, then cash rent could be increased to equalize the difference.



There is no place in the table to assign a value to two important items—"management" and "risk." These are particularly difficult to estimate in terms of dollars, and the ways in which they are shared between landlords and tenants vary widely. For any type of farming, a crop-share or livestock-share lease puts more of the risk on the landlord than does a cash lease.

Neither risk nor management should be ignored when the proper distribution of farming returns is decided on, but they can best be handled by negotiation between individual landlords and tenants. After working through Table 4, the landlord and tenant should be in a better position to decide what further adjustments, if any, should be made to allow for risk and management.