SDSU Extension

BEEF

Chapter 47

Leasing Beef Cows

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Introduction

Lease agreements have become a common practice as producers lease land and machinery. Like leasing these capital assets, leasing cattle is a method of lending or transferring capital while sharing the risk. Another reason for leasing cattle may be transferring ownership of a herd to the next generation and providing a situation where the owner can reduce his/her labor and active participation while remaining invested in the operation. Finally, leasing can provide an alternative to lender financing. As capital requirements for land, equipment, and farm inputs increase, leasing cows may be an option to owning high-cost capital assets.

Share agreements divide the calf crop among the parties involved based on expenses, labor and ownership, spread production risk, expenses, and returns to both the cattle owner and the operator. While a reduction in ownership risk and costs occurs using a share agreement, the owner also has to relinquish some management and decision-making. Both the owner and the operator incur the risk of capital through the creation of an agreement. Mutual trust and confidence must exist. The parties should discuss the lease components, potential problems, and conflict resolution methods and include these items in the agreement. Communication is a crucial driver in a successful lease agreement.

Reasons for Use

Producers challenged by dwindling grazing resources to support their production systems may find cow lease/share arrangements an alternative to herd liquidation. According to the United States Department of Agriculture's National Agricultural Statistics Service, South Dakota's cow herd totals (ranked fifth nationally) grew by one percent from 2020 to 2021. Maintaining herd number or growth may be difficult with the continued conversion of pasture and hay ground to crop acres in South Dakota and across the northern Great Plains.

Cow lease/share arrangements offer a solution for cattlemen with

Key Points

- Lease and share agreements provide a means to spread or share production risks; being transferring capital or ownership of a herd or make changes in labor inputs.
- Cow lease/share arrangements are unique in almost every circumstance due to individual management programs, herd genetics, cow frame size, and long-term goals.
- There are several additional factors for owners and operators to discuss.

surplus grazing acres or winter feed and those who do not have those vital resources available to them. This type of contractual agreement is unique in almost every circumstance due to the individuality of management programs, herd genetics, cow frame size, and long-term goals.

Family operations can transfer ownership and management to the next generation by utilizing a lease agreement without additional land or capital. Share agreements reduce the need for bank financing by transitioning ownership through a lease or share agreement. The agreement also provides the owner generation with income potential and allows them to remain an active participant while reducing their direct labor involvement. Non-related individuals may also utilize this form of agreement.

Getting Started

Discussions should begin with the identification of each party's contribution. From the owner's (lessor) viewpoint, those contributions usually include the cows and an accompanying health program and the bulls to service the cows. However, the lessee may also provide the bulls. Inputs typically listed as contributions from the lessee include feed, grazing acres, labor, equipment, and facilities.

Adding the individual contribution values made by both parties provides an estimate of the percentage of inputs each provided and can then serve as a guide for sharing the calf crop value. A standard industry value is a 70% - 30% share arrangement, where the cow owner receives 30% of the calf value at a designated date. The percentage can change depending on the cow's agreed value, feed costs, and other contributions made by both the owner and the operator. The final agreement may be 60%-40%, 50%-50%, or some other arrangement deemed acceptable by both parties. In nearly all arrangements, the cow owner receives all the cull cow proceeds.

Components to Include

During the lease agreement's drafting, both parties need to remember that industry generalizations may or may not fit their situation. One example is the agreement's timeline. The industry standard implies the agreement covers a time frame of one year that typically runs from October to October for a spring calving herd. Make appropriate adjustments for a fall calving operation. Should that time frame vary, make appropriate adjustments to the percentage of calf value shared as well.

While the share percentage may be the primary component in the arrangement, many additional factors need consideration as owner/operator discussions continue:

- All agreements should be in writing. Verbal agreements fail when the parties do not agree on the details of their share agreement. Written agreements eliminate memory problems.
- Start date and end date. Share agreements generally run from October to October for spring calving herds. Document the timeline in writing. The timeline should also include a date when the owner must take responsibility of the cows included in the agreement and their share of the calf crop if the division is based on a per head basis.
- Bred Cows. Cows should be guaranteed pregnant on day one of the agreement. Include the method of guarantee in the written document. Options may include documentation of pregnancy checking by a veterinarian or the lessor preg checking the cows upon arrival.
- Cow numbers. The minimum and the maximum number of cows required in the agreement. A component should also discuss how replacement animals are handled if the number on hand falls below the minimum.
- Pregnancy test: Cows should be pregnancy-tested at the end of the agreement time frame to document non-bred individuals, thus eliminating those animals from future lease agreements. Again, list who the agreed-upon preg checker is and when the preg checking deadline.
- Body Condition Score. Assign a body condition score (BCS) to each cow at the onset of the agreement. Discuss cow condition expectations and include them and any ramifications for extreme reductions in BCS in the agreement. Also, document who scores the cows.

- Cow death loss verification. Adaption and inclusion of insurance company verification methods can be part of the verification process. Documentation typically involves a licensed veterinarian, with the expense customarily assigned to the cow owner.

- Health programs. Expectations for herd health, cows and calves, should be outlined in the agreement. Special considerations and veterinarian consultations should occur if the new environment is significantly different than the present one. Unique marketing programs may have limitations on vaccines or treatment protocols, making it essential to list them to ensure compliance.

- Creep feeding. Creep feeding calves is standard practice for some cattlemen, while others prefer to forgo that management component. If utilized, creep expenses are shared in the same percentage as the calf value.

- Method of division. Since the agreement includes the percentage of the calf crop the owner and operator receive, the next component is how the calf crop division is determined. The division can be based on the calf value or the number of calves. The manner of division is an essential consideration in an equitable agreement. Division varies based on the goals of the parties involved in the agreement. Examples include:
  - Transition ownership of the cowherd to the incoming generation. In that case, it may be applicable for the operator to have the first pick of the replacement heifers instead of a random sort or gate cut.
  - Income-generating agreement. Determining a value may be done by taking all the calves to the sale barn and splitting the check based on the agreement. Selling all the calves would not allow either party the opportunity to retain ownership of the calves for backgrounding or finishing enterprises. If either party desires to feed the calves, there are options to consider. The calves can be purchased at the sale barn. If another method determining the calf value is utilized, include the specifics in the agreement document.
- Ensuring this conversation is covered and included in the agreement is critical to a successful exchange of ownership.

- Avoid other operations in the agreement. Do not include land, machinery, heifer development, and calf backgrounding/finishing agreements in the cow lease document. The inclusion of other operations makes determining an equitable split of the calf crop much more difficult. Develop separate leases for these situations. Examples of separate agreements include:
  - the operator leasing the owner's equipment,
  - a heifer development agreement in which the owner provides replacement heifers for the herd, but the operator supplies feed and labor,
  - backgrounding/finishing agreement,
- As noted above, the calf crop distribution needs to be finalized at the end of the lease agreement. The addition of activities with varying timelines disrupts that finalization.

Summary

Cow lease/share arrangements may be a win-win scenario for cattle producers with cows and limited feed resources and other producers who have the resources to meet those very needs, and beginning and exiting producers making ownership transitions. After establishing a business mindset and doing the required homework to create a mutually beneficial share agreement, both the lessor and lessee can consider the lease arrangement a successful endeavor.

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References

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Sample Agreement Worksheet

					Total	Operator	Owner
Livestock Investment							
Depreciation							
Cow					$	$	$
Bull					$	$	$
Interst:							
Cow	$	average investment x	%	interest =	$	$	$
Bull	$	average investment x	%	interest =	$	$	$
Cow death loss							
	$	average investment x	%	rate =	$	$	$
Machinery, Equipment and Building Investment							
Depreciation-Machinery					$	$	$
Interest -Machinery							
$	average investment per cow x		%	interest =	$	$	$
Depreciation-Buildings					$	$	$
Interest-Buildings							
$	average investment per cow x		%	interest =	$	$	$
Pasture, Feed and Other Expenses							
Pasture-Retun to Land Investment (1-4%)							
$	per acre x	acre/cow unit x	%	return =	$	$	$
OR							
Cash Rental Values							
Pasture		acres/cow unit @	$	/acre =	$	$	$
Hay		tons/cow unit @	$	/ton =	$	$	$
Silage		tons/cow unit @	$	/ton =	$	$	$
Crop residue		tons/cow unit @	$	/ton =	$	$	$
Grain		lbs/cow unit @	$	/lb =	$	$	$
Protein		lbs/cow unit @	$	/lb =	$	$	$
Salt/mineral		lbs/cow unit @	$	/lb =	$	$	$
Vet, drug, etc				/cow =	$	$	$
Breeding costs (AI, breeding soundness exam etc.)				/cow =	$	$	$
Fuel and oil for feeding, hauling, and observing				/cow =	$	$	$
Utilities and miscellaneous				/cow =	$	$	$
Repairs to machingery				/cow =	$	$	$
Repairs to buildings and fences				/cow =	$	$	$
Hauling				/cow =	$	$	$
Marketing				/cow =	$	$	$
Insurance				/cow =	$	$	$
Taxes				/cow =	$	$	$
Labor				/cow =	$	$	$
Operating interest		(/2) @	%	= /cow =	$	$	$
(sum of all other cost excluding management)							
Management					$	$	$
TOTAL CONTRIBUTION					$	$	$
PERCENT					100%	%	%