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Beef cow sharing agreements

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There are many possible paths that policy might take with rural economic growth as the goal. A critical feature in all of them, however, will be fostering a climate of business innovation and entrepreneurship. Economic analysts agree that innovation provides the fuel for building new economic engines.

Evidence suggests that current farm policy falls short in this dimension. Innovation is hard to measure. But one useful proxy is the rate of growth in new businesses. From 1990 to 2002, the growth in new business establishments was generally the weakest in counties most dependent on farm payments. By focusing on commodities, farm payments again wed regions to consolidation—even fewer businesses.

Farm policy has a rich history of providing support to rural America. From the beginning it has served many goals, including raising the incomes of farmers and boosting economic gains in rural communities. While helping farmers may continue to be an important objective for farm policy, new approaches are needed if the nation wants to spur broader economic gains in rural regions.

Nancy Novack, associate economist in the Center, helped prepare this article. Reprinted with permission from The Main Street Economist; Figures not included. The maps that were originally published with this article are available in the html version of this story at http://www.extension.iastate.edu/agdm/

Beef cow sharing agreements

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Beef cow herds have always been a popular enterprise for small and medium sized farms in the Midwest. In recent years they have even been profitable! Since owning cattle involves a relatively high capital investment, many cow-calf enterprises are carried out jointly by two or more people. One party may own the breeding herd while another party supplies the labor to take care of them. Feed, health and other costs can be shared in a variety of ways—there are no hard and fast rules to follow.

Under joint agreements the question always arises as to how income should be shared. The basic principle is that the calves or the income from the sale of the calves should be shared in the same proportion as total costs of production. Noncash costs for contributions such as unpaid labor and owned pasture land should be included along with out-of-pocket costs. Besides labor, a management charge should be included to reflect both day-to-day and long-term decision making. A rule of thumb of 10 percent of all other costs can be used to value management.

Livestock share lease

Terms of a traditional livestock share lease call for the tenant to provide labor, machinery, half the livestock, half of the harvested or purchased feed, and half of the seed, fertilizer, health, marketing and miscellaneous costs. Income is typically divided equally as well. Often cropland is included in the lease, as well, with costs shared according to traditional crop share lease provisions. If we add up the costs contributed by each party using the typical budget values in Example 1, we see that, indeed, the totals for the tenant and landlord are almost equal. Sales from cull cows and bulls are split equally, as well as the calf income, and both parties help purchase or contribute replacement heifers and bulls.

Other arrangements

Some landowners prefer to provide all the livestock and land, but not pay any other expenses. Their contributions would consist of the breeding livestock, pasture, land for hay and stalk grazing, and corrals and fences. Example 2 shows that these costs add up to about 40 percent of the total, so calf income would be divided 40 percent to the owner and 60 percent to the operator.

Another variation is for an investor to provide only the livestock, which represents about 15 percent of the total costs. At the other extreme, someone who contributes only labor to care for the herd on someone else's property would earn about 20 to 25 percent of the revenue or calf crop.

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Many other combinations are possible, and can be evaluated by simply adding the estimated costs of each party's contribution and converting it to a percentage of the total. Naturally, actual costs should be substituted for typical costs whenever possible. If calves will be carried to a heavier weight, additional costs for feed, health, and labor would need to be incorporated.

Income from culled breeding stock

The breeding herd should be treated as a capital asset, just like land, machinery or buildings. Ownership records of each individual animal should be carefully maintained, for tax records. The income received from selling cull cows, bulls and heifers should go to the owner(s) of the livestock, regardless of how the calves are shared. Likewise, the owner of the herd should provide replacement bulls and heifers. These may be purchased from outside or drawn from the herd owner's share of the calf crop.

Cow-Calf Budget-(calves sold after weaning)

Cost Item	Cost per Cow Unit	Example 1 Livestock Share Lease		Example 2	
		Owner	Operator	Owner	Operator
Pasture land (2.5 acres @ $30)	$75.00	$75.00		$75.00	
Pasture fertility, weed control	50.00	25.00	25.00		$50.00
Corn (4 bu. @ $2.00)	8.00	4.00	4.00		8.00
Supplement and minerals	9.00	4.50	4.50		9.00
Mixed hay (2 tons) - seed - annual fertility, pesticides - labor - machinery - land	5.00 26.00 18.00 34.00 30.00	2.50 13.00 30.00	2.50 13.00 18.00 34.00	30.00	5.00 26.00 18.00 34.00
Stalk grazing (4 acres @ $3)	12.00	6.00	6.00	12.00	
Health	25.00	12.50	12.50		25.00
Utilities	5.00	5.00		5.00	
Machinery, fuel, repairs	10.00		10.00		10.00
Marketing, miscellaneous	20.00	10.00	10.00		20.00
Interest on feed, other costs	9.50	5.35	4.15	3.50	6.00
Interest, depreciation, insurance - machinery and equipment - fences and corrals - breeding herd	18.00 25.00 90.00	25.00 45.00	18.00 45.00	25.00 90.00	18.00
- bull replacement	12.00	6.00	6.00	12.00	
Labor (9 hours @ $9)	81.00		81.00		81.00
Management (10% of costs)	54.00	27.00	27.00		54.00
Total	$616.50	$295.85	$320.65	$252.50	$364.00
Percent contributions		48%	52%	41%	59%

Management decisions

When a good working relationship exists between the parties, all management decisions may be made by mutual agreement. The person providing the labor is usually responsible for day-to-day management decisions about feeding, breeding and treating health problems. However, larger decisions such as buying or selling livestock or setting the general feeding, breeding and health programs should be discussed well in advance.

Lease agreement

Written agreements help avoid disagreements later on. A sample cow-calf share lease agreement is available from the Manitoba Agriculture and Food Agency, at: www.gov.mb.ca/agriculture/financial/farm/caf22s01.html .

To access additional information about beef cow sharing agreements, including a decision aid spreadsheet to help evaluate the contributions of each party, go to the Farm Economics Current Issues Web site at http://www.extension.iastate.edu/feci/cow-share/ .

Updates, continued from page 1

Internet updates

In addition to the Handbook updates, the following updates have been added to www.extension.iastate.edu/agdm.

Selecting an Appropriate Pricing Strategy–C5-17 (3 pages)

Decision Aids

Grant In-Kind Match Contributions

Travel Expense Voucher

Value-Added Processing Facility Start-up Costs

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