

"Contributions Approach" Offers Practical Method to Determine

What Is Fair Rent?

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SHARE OR RENTAL agreements are a must for many young farmers getting started today. Even well established farmers are turning more to leasing as a means of getting control of additional resources.

This is not surprising when we consider that it now takes four times as much capital to start farming or ranching as it did 15 years ago.

With increased emphasis on renting, many questions are raised regarding "fair" rental rates. What is a fair division of income when the tenant furnishes a tractor and equipment? What should be the cash rent for irrigated pasture? Who should pay for fertilizer and seed? What should I charge for taking in cattle on shares?

What is Customary

In the past the answers to these questions have usually started with a consideration of local custom. However, customs are slow to change while farming has been changing rapidly. It is becoming increasingly difficult to identify the "typical" or "customary" situation. For example, sprinkler irrigation and new forage harvesting methods, in some cases, have changed the production patterns for hay so that "customary" share arrangements used in the past are no longer applicable.

After considering local custom and engaging in some bargaining, a rental rate is usually agreed upon by the two parties.

Contributions Approach

An alternative approach is to start, not with "what is customary," but with an appraisal of the contributions made

by each party. From an economic standpoint this is the fairest method of determining rental rates. It is based on the assumption that an equitable division of income results when income is shared in the same proportion that costs are shared. Costs include a charge for all resources such as land, labor, capital, equipment, livestock, etc.

To determine the rental rate by this approach it is necessary to measure the value of each party's contributions in terms of dollars.

The contribution approach has been

used successfully by many landlords and tenants. Investment items such as land and equipment, must be given a value and charged at a certain rate of interest to determine the annual investment cost. It is suggested that present market value be used for establishing a value on these assets.

Interest Rates

The interest rate should correspond with what this money would return if invested in another asset of similar risk and productivity. It is a general practice to allow a higher return on working assets such as livestock, machinery, and supplies, than on land and buildings.

Current farm expenses should be listed according to the cost of each or both parties. Obviously some of these entries are subject to negotiation. For example, the value placed on the tenant's labor will have to be mutually agreed upon.

Finally, both current and investment

expenses are totaled. These totals indicate the proportion in which the gross farm income should be divided.

As an illustration, if the total cost of the whole farm came to \$20,000, of which the landlord contributed \$6,000 and the tenant contributed \$14,000, the proportionate shares of gross farm income would be 30 per cent and 70 per cent, respectively.

	Cost	Proportionate Share
Total	\$20,000	100%
Landlord	6,000	30%
Tenant	14,000	70%

An Example

Let's see how this approach might be used in practice. Mr. Landlord has a 160-acre irrigated farm for rent. His son-in-law, Mr. Tenant, has some capital and a full line of machinery. They are interested in working out a rental agreement that would be fair to each.

Together they agree on the estimate of costs as shown in the schedule on this page.

From this analysis Mr. Landlord and Mr. Tenant decided that a 40-60 division of gross income would be equitable, based on the contributions made by each party. The actual division could be made in several ways.

The crops could be divided on the basis of bushels, tons and months of grazing. Another possibility would be to divide the gross income in terms of dollars at the end of each year. Also a cash lease may be agreed upon, based on the normal gross income from the farm. The important point, from the standpoint of equitable distribution, is that the landlord receive 40 per cent of the normal gross income and that the tenant receive 60 per cent.

For Part Farms

We have used a whole farm as the basis for our illustration. The contributions approach works equally well for determining the lease of a pasture, field, or other parcel of land. It can also be used effectively to determine shares for livestock agreements and grazing fees.

	Estimated Annual Cost		
	Whole Farm	Landlord's Share	Tenant's Share
INVESTMENT COSTS:			
Land and buildings \$110,000 at 5%	5,500	5,500	
Machinery and equipment \$9,000 at 7%	630		
TOTAL INVESTMENT COST	6,130	5,500	630
CURRENT FARM EXPENSES:			
Allowance for tenant's labor	4,000		4,000
Hired Labor	1,300		1,300
Repairs—building and fences	300	300	
Repairs—machinery	700		700
Machinery depreciation	1,500		1,500
Building depreciation	500	500	
Fuel, oil and grease	1,200		1,200
Machine work hired	500		500
Seed	150	50	100
Fertilizer	1,200	300	900
Insurance on buildings	100	100	
Insurance on personal property	150		150
Taxes on land and buildings	600	600	
Taxes on personal property	100		100
TOTAL CURRENT EXPENSES	12,300	1,850	10,450
TOTAL INVESTMENT AND CURRENT EXPENSE	18,430	7,350	11,080
Proportionate share	100%	40%	60%

This Land of Ours . . .

Cactus Has Its Problems

(As Well as Its Points)

By JESSE GREEN

ONLY THE PRICKLY pear and the little pincushion cactus of the cactus family have been able to move north into Montana. With all their thorns they have a more difficult time than is apparent.

Resistance to drought is the main virtue of the cactus family. The prickly pear knows all about dry weather. It may even be more wise than the dry farmer, who keeps right on when the dry years come, and will spend his bottom dollar, whereas the cactus just closes down all operations and waits for rain. It can go from a feast to a famine without an effort. A long experience has taught the cactus to live with drought.

Changes in temperature are another matter. In the real home of the cactus low temperatures are not the rule. Those families of cactus that have ventured north have to face the new hazard of lower temperatures.

Hard Frosts in May

In 1946 there were hard frosts in May following warm weather that had broken the dormancy of the cactus. At some stations along the Eastern Slope there was frost every night for the first 10 days in May, and on the night

of the 10th the temperature dropped to 10 degrees, or near that figure. We well remember how the leaves of the cottonwood trees were frozen, and fall wheat was frozen to the ground. The recovery of most vegetation was remarkable. We produced a crop.

The cactus family did not do so well. There are no exact figures on the cactus crop, but some observations were made. In a region between Harlowton and Martinsdale of the Musselshell Valley, where the little pincushion cactus had reached a high stage of development prior to 1946, the range was dotted with the most beautiful flowers in June and July. It was easy to find a cluster of pincushion cactus 10 inches across containing a dozen individual plants.

They all perished in the frosts of 1946. Only the carcasses were left.

10 Years to Come Back

The pincushion cactus did not appear again for nearly 10 years. In 1956 some single pincushion cactus were to be found. In 1957 some doubles could be found. These, no doubt, came from the seed. The complete cycle from a freeze out to full production of this family of plants may be from 15 to 20 years.

In this same region the prickly pear was almost exterminated in the freeze

of 1946. It is more hardy than the pincushion, which in some cases was exterminated. There were some living plants left in every cluster, making the comeback more easy. However, cactus all over the state was damaged in the hard frosts of 1946 and again in May of 1947. Only now, following the warm winter of 1957-58 and favorable springs of 1957 and '58 is prickly pear reaching its maximum production.

There appears to be only one variety of prickly pear in Montana, the one with the yellow flower. If we go south to a line running east and west through the approximate position of Pocatello,

Idaho, there are both yellow and red flowering prickly pear. The red ones never venture north of that given line.

There are two pincushion cacti in Montana, one with a red and another with a yellow flower. The red flowering variety is the most predominate. Some locations of the red variety are Twin Bridges, Townsend, Harlowton and Sidney. In the Gallatin Valley only the yellow pincushion occurs. Just why some plants do not spread into other regions is somewhat of a mystery. Also, "Why do such beautiful flowers as the cactus come from such a thorny background?"



Cactus at its best, or the stockman may say, "At its worst."