



Frequently Asked Questions: **Crop Leases in Kansas**

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Frequently Asked Questions on Crop Leases in Kansas

1. What is a “fair” cash rent for my land?

Cash rents for cropland will vary based on market conditions and characteristics of the land. The best source for cash rent values is the “going market rate” for similar land. If that information is not available from public or private sources, then cropland owners and tenants can use the *KSU-Lease.xls* spreadsheet to estimate what might be a fair cash rent based on yields, prices, and costs entered into budgets within the spreadsheet.

2. What percentage of the crop should I receive in a crop share lease?

The percentage of the crop that the landowner and tenant receive under a crop share lease is based on the principle that crop returns are shared in the same proportion as crop resources contributed. In other words, the percentage of the crop received is determined by the percentage of crop inputs that the landowner and tenant each provide in growing the crop(s). These percentages can be determined by building a budget for each crop grown on the land and then identifying who provides that input (landowner, tenant, or shared). The *KSU-Lease.xls* spreadsheet is a useful tool in determining equitable crop share arrangements. Survey information on typical irrigated and non-irrigated crop-share lease arrangements in Kansas is also available on www.AgManager.info.

3. Which crop inputs should I share in my crop share lease?

One of the basic principles of a good crop share lease is that yield increasing inputs should be shared. While all inputs may technically qualify as yield increasing inputs, the primary inputs this principle refers to is fertilizer and irrigation fuel—as yield generally increases as more of the input is applied. Sharing these inputs promotes their optimal use (i.e., neither over or under applying). Beyond this principle, it is largely up to the landowner and tenant to determine which inputs to share. Two things to keep in mind during this negotiation process are that: 1) risks may change for the landowner and tenant as different inputs are shared, and 2) returns must be shared in the same proportion as resources contributed, as described in Question 2 if the lease is to be equitable.

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4. Do I need to change my crop share lease if my tenant plants a new crop?

Another principle of a good crop share lease is that the lease needs to be evaluated as technology changes. In terms of a crop share lease, a technological change is defined as anything that is done different in growing crops relative to how it was done in the past. A new crop, crop rotation, tillage practice, or irrigation equipment purchase are a few examples of technological changes in crop production. Whether the terms of a crop share lease will need to be changed will depend on whether the new technology changes the relative input contributions of the landowner or tenant (see Question 2).

5. If my tenant goes to no-till who should pay for burndown herbicides?

Often times when a tenant goes to no-till there are some herbicides that simply are replacing a tillage operation that was done in the past. If there were no other changes then it likely is equitable that the tenant pays 100% of these herbicides even though “non burndown” herbicides are shared. However, often times with the adoption of no-till other changes are also made (e.g., change to the crop rotation) and thus it may be that the landowner should share all herbicides. Thus, as is the case with any technology, whether the terms of a crop share lease will need to be changed will depend on whether the new technology changes the relative input contributions of the landowner or tenant (see Question 2).

6. Should tenants make long-term investments in the land (i.e., terraces, irrigation equipment, alfalfa seed, etc.)?

It is generally recommended that landowners make long-term investments in the land in case the landowner decides to terminate the lease agreement with the tenant. If the tenant does make a long-term investment, and the lease is subsequently terminated, the tenant should be compensated for any unused portion of the investment. In the case that a tenant makes a long term investment in the land, a written lease is suggested to describe the process in which a tenant would be compensated if the lease is terminated.

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7. Should I have a written lease?

A written lease is encouraged to spell out specific terms of the lease. While a written lease may help defuse some legal questions that could arise in a lease agreement, it is not a guarantee that it will solve all legal issues. Nevertheless, a written lease can be very valuable as it helps landowners and tenants document the terms of the lease. This is especially important as leases become more complicated and as tenants routinely rent from more landowners. The primary benefit of a written lease is that it forces both parties to identify issues that are relevant and this increased communication can help avoid potential problems in the future.

8. How often should I adjust my cash rent?

Cash rents should routinely be evaluated as market conditions change. Recent volatility in agricultural commodity prices and inputs costs can result in large changes in equitable cash rent values. Consequently, it is suggested that neither landowners nor tenants sign long-term cash rent agreements without provisions to make adjustments to the cash rent.

9. As a landowner, will I get a higher return with cash rent or crop share?

Because you share both production and price risk with a crop share lease, you should expect a higher rate of return with a crop share lease compared to cash rent on average over time. However, in any given year that may or may not be the case. The difference you might expect will also depend on the relative risk in your area (i.e., areas with higher production risk will see a larger difference) and the local demand for your land. Beyond rates of return, both cash rent and crop share leases have advantages and disadvantages that may result in one lease option being a better fit than the other.

10. What do USDA cash rent values for individual counties represent?

Beginning in 2009, USDA started surveying and reporting cash rent values at the county level. While these values may reflect an appropriate average of what is being paid for all land in a given county, they are not necessarily a good reflection of what an individual piece of ground is worth. This is because the reported values reflect an average across a wide range of land qualities and landowner-tenant relationships. More importantly, they likely reflect some values that have not been updated for a number of years). In addition, as commodity market volatility changes, the USDA reported cash rent values may not reflect current market conditions.

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11. Are there other crop lease options beside crop share and cash rental arrangements?

While crop share and cash rental arrangements are the most common types of crop leases, several “non-traditional” leases have become more popular in recent years. These leases include a flexible cash lease, a bushel rent, and a net share lease. A flexible cash rent is a cash rent that varies (flexes) from year to year based on some predetermined formula. Flexibles cash rents can “flex” based on price, yield, revenue, and/or input costs. In a bushel rent arrangement, the landowner receives a fixed number of bushels per year, regardless of actual production. Thus, a bushel rent is effectively a flexible cash rent that flexes on price. A net share lease is basically a crop share arrangement in which the landowner does not share any crop input expenses with the tenant, but in turn would receive a smaller percentage of the crop returns.

12. Are landowners eligible to receive government payments?

Landowners are only eligible for government payments if they incur production risk in the lease. Therefore, landowners would be eligible for government payment in a crop share lease because they share the risk of growing a crop with the tenant. In a cash rent, however, they receive a fixed cash rent regardless of what the crop yields and thus do not incur any production risk. Many flexible cash rents are also treated as cash rents by FSA and thus landowners are not eligible to receive government payments. In addition to this provision, crop share landowners must also meet income and payment limitation requirements to be eligible. It is recommended to check with the county FSA office as to program eligibility in specific situations.

13. When do I have to notify a tenant that I am terminating the lease?

Kansas law specifies that proper written notice of termination be delivered to tenants at least 30 days prior to March 1 (except written leases that specify another termination date) in order to terminate the lease for that year. If proper written notice is not given to the tenant at least 30 days prior to March 1, then the tenant will maintain possession of the property until March 1 of the following year. The most effective means to serve notice of termination is through registered mail. For more information on lease law see the *Kansas Agricultural Lease Law* publication available on www.AgManager.info.