

Is Flexible Cash Rent For You?

During the past several months there's been a lot of talk about flexible-cash-lease products or bonus programs for landowners. This has been prompted by landowners' recognition of increased grain prices and those owners wanting a piece of the action to improve their return on investment.

The Farm Service Agency (FSA) may determine that if the flexible or bonus leases share financial risk between the landowner and tenant, the direct and counter-cyclical payments must be shared. There may be exceptions to this rule and you should check with your FSA office. I have concerns about these types of leases that go beyond this.

If the tenant has a lease arrangement that shares a percent of the gross income or a bushel equivalent, it tilts the risk-to-reward ratio unfairly if the tenant invests in technology that increases potential or actual revenue and then shares a percentage with the landowner.

That technology might be triple-stacked seed technology that likely

increases yield. The tenant pays the total cost of the seed and gives part of the gross to the landowner. The same could be said for auto-steer technology that results in better or more even seed placement. It could be a fungicide that the tenant applies. We have a client who reports a 20-bu. yield advantage with a \$20-22 investment in fungicide. At \$3 corn, that amounts to \$60 more revenue, and if 35% or 45% is passed on to the landowner, the tenant is taking 100% of the risk – if the yield boost is not realized – and getting 55-65% of the revenue.

Our experience has indicated it is a better business decision to negotiate a set cash-lease rate that is fair to both landowner and tenant, and then the tenant can make business decisions on risk vs. potential reward that make sense for him.

That being said, I am sure there are some situations where flexible or bonus leases work very well. Keeping that risk-to-reward teeter-totter in mind may help you through those negotiations. ■

Whole-Farm Risk Management

Last month's column refers to net-farm income's very large swings over the last 90 years. The good years seldom last more than several years before the blush fades, or worse yet, below-average net-farm income results.

Perhaps that can be explained by the natural market forces of a free enterprise industry fueled by greed and fear; those we cannot control other than by understanding history, free market forces and human emotion.

It does point out that there has probably never been a better time for whole-farm risk management – risk management that starts with determining the gross dollars per acre needed from each crop to cover all term debt payments, operating expenses, living draws, depreciation and a desired level of profit. All costs are then covered, including profit. I view profit as a cost – the cost of staying in business and capitalizing growth that is needed to stay competitive.

The other side of whole-farm risk management is protecting revenue. Marketing results that get you in the top third of the market take much risk out of having red in the P&L at the end of the year. That is achievable, but not most probable. As a recent study revealed, 80% of the bushels in Illinois were sold in the bottom 20% of the price range. Protecting production with crop insurance is another piece of whole-farm risk management.

Lastly, and most overlooked, are legal and human resource management risks. Legal risk includes not only legal structure that affects liability, taxes and operating ease; but it allows for transitioning the farm to another generation.

Probably the toughest risk to manage is the human resource, which has been the subject of this column many times. Getting the right people in the right place at the right time with the right set of skills is not getting easier. Planning is the first step to better people management. ■

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