



NEGOTIATING CASH RENTAL RATES

One of the most-often-asked questions I have had this winter is: How can I reduce the risk of rapidly escalating input costs?

Often, renters indicate landowners wish to enter into longer-term leases, but the uncertainty of crop prices and inputs in 2009, 2010 and beyond make it nearly impossible to consider these types of arrangements without betting the farm.

First of all, it's good that landowners are looking at longer-term leases, because it eliminates or greatly reduces the annual hassle of renegotiating lease rates. Plus, landowners can have some assurance with a long-term lease that renters are not going to mine the potash and phosphorus levels if the lease continues on with the same parties.

The question: What is a fair and simple process for developing a win-win arrangement?

First of all, you can sell multiple years of crops. But recently, many of these forward-sale mechanisms have become unavailable or difficult to financially or psychologically manage. Use of futures and options still exist, but that leaves basis levels open.

In some cases, variable rents may

take some of the risk and share it with the landowner. You might say, "The reason we have cash rent is the landowners do not want the risk of crop share." And I agree, but most landowners do not want to kill the goose that is laying the golden egg, so some type of risk sharing may be appropriate.

There have been variations of variable-cash-rent leases that factor in price and yield. That covers one side of the equation, but what about the cost side? How do you factor in the cost of seed, fertilizer and chemicals?

One thing Darin Kleve of Russell Consulting Group is working on is a formula to share the risk of those inputs when determining cash rental rates.

We looked at a 37-year comparison of seed, fertilizer and chemical costs and compared them to land rental rates in Iowa. The land rental rate is an inputted rate based on land prices and cost of capital (see chart).

Over the years, the variance was affected by many outside factors, however, they do parallel. When they don't parallel, there is a period of adjustment.

If the cost of rent vs. the combined cost of seed, fertilizer and

chemical can be taken into account, this can take some of the risk out of it for the tenant and still provide a fair return for the landowner. The process needs to be simple and easy to understand.

You'd need an agreement in the lease on how and when the inputs price would be established, but that can be done.

We'll test the process and hopefully have the bugs worked out by this summer. **CSU**

HUMAN RESOURCES

In these articles, a subject often discussed is human resource management. This area will continue to be an important issue for producers as production agriculture gets more complicated and the availability of talent drops while cost of talent increases.

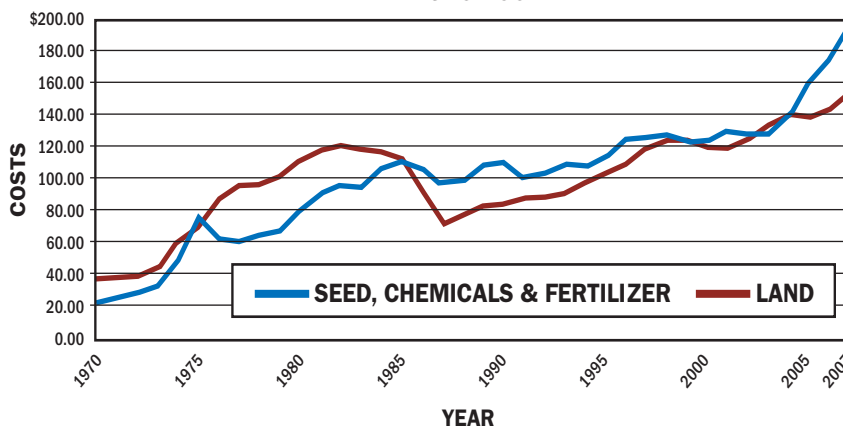
One trend I've noticed this past year is the more frequent use of contract labor instead of W-2 employment arrangements. I think we will see more of this in the future.

There are some legal considerations that you need to be very aware of since there is considerable legal liability if you have an employee and treat them as an independent contractor.

I think the trend is a result of people who have a lot of entrepreneurial tendencies and are tired of corporate America. We may be able to capitalize on that trend, while at the same time solving HR challenges. ◀

Moe Russell is president of Russell Consulting Group, Panora, IA. Russell provides risk management advice to clients in 34 states and Canada. For more risk management tips, check his Web site (www.russellconsultinggroup.net) or call toll-free 877-333-6135.

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