

Pasture leases

--Tip Hudson, WSU Kittitas County Extension

Pasture leases should be treated just like any other business agreements -- they should be in writing and signed by both parties! No matter how simple and clear you think the arrangement is, questions will come up that have not been agreed upon ahead of time. If they haven't yet, they will. A 30-year agreement with an adjacent landowner has worked on a handshake for all those thirty years, then one of the landowner's children steps in to help manage finances for an aging parent and they question the rate, or the duration, or the basis for payment, or whether it should be farmed instead of grazed to make more money. A written agreement protects both parties. More on this in a minute, but if you read nothing else, put pasture/grazing leases in writing!

What is the basis of a grazing lease? What is a lease? The term lease implies a long-term arrangement, something a person can count on for several years. Leases have been set up a hundred different ways. "Rent" has a short-term connotation, and may represent something that can change from year to year with little notice. Whether leasing or renting, most agreements use one of several bases.

Per acre lease

Granting access to a specific acreage for a specific period of time (say, April 15 to October 15) for a specific per acre fee is one option. The benefit is that the landowner can count on a fixed dollar amount. The downside is that the lessee/grazier has an incentive to get the most out of that dollar, so the tendency is to keep grazing until every blade of grass is gone. This arrangement provides a disincentive to good pasture management. Granted, a landowner can also specify how many cows for those 6 months, but most don't have the level of expertise necessary to accurately evaluate a sustainable stocking rate and would likely get pushback from the grazier.

Animal unit month

An AUM is a unit of forage quantity, not an animal measurement -- it is the amount of dry matter forage (think hay) required to support 1000 pounds of ruminant for one month. The scientific community has offered figures from 780 pounds to 900 pounds, and of course, the intake requirements of a 1000-lb cow, for example, change through the year based on reproductive stage, season of year, quality of forage, etc. However, 900 pounds is a good figure that works for calculations and builds in some flexibility. The AUM is the ultimate equalizer. It doesn't matter what class of livestock, what the quality of pasture, what size cow, when the grazing season starts, etc. Basing pasture lease or rent on the AUM is similar to paying for head-days. The lessee/grazier pays based on usage, or guarantees payment for a certain level of usage regardless of what he actually ends up stocking. The benefit of this basis is that the grazier pays for actual usage and there is an incentive to manage the pasture well. Said another way, it is a disincentive to overuse, because the grazier must pay for that overuse and overuse doesn't come free. Once pastures are grazed short, the declining rate of gain on calves or declining body condition on pregnant cows no longer compensates for the "cheap" pasture. Research has shown that as standing forage biomass falls below ~1500 lbs/acre, a cow's intake rate is well below her intake potential, which means either gains or condition starts to slip, and the slippage occurs long before you can visibly detect it. The downside to the AUM basis is the landowner is not guaranteed a fixed dollar amount, unless that is specified in

the lease agreement. On a strict AUM basis, a grazier could choose to stock the pasture a month late, for example, or bring half the animals he intended, for a host of different reasons, and pay for forage removed, and now the landowner receives much less money than they were expecting. But the pasture is in great shape!

Pairs

Many published grazing lease rates are on a cow-calf pair basis. This is common because it's easy to track, easy to bill, easy to manage. This is very similar to the AUM basis provided one recognizes that the pair is more than 1000 pounds of ruminant and increases through the season. At the beginning of the grazing season with a spring-calving herd, the calf is getting very little of its nutrition from pasture forage. By the time the calf is 6 months old, it is getting most of its nutrition from pasture and is consuming 3% of its body weight per day (on a dry matter basis). A herd of 1300-lb Simmentals with January calves looks very different from a March-calving herd of 1000-lb Angus or Angus cross cows. The former has 1600-1700 pounds of ruminant per pair on June range or pasture, while the latter has 1200 pounds per pair on the same pasture. The calf makes a difference in forage consumption in the latter half of the grazing season. The lease arrangement and lease rate should reflect this. Again, this is captured in the AUM basis but must be identified and calculated and built in up front in the per pair basis. Therefore, a per pair rate should be more than an AUM rate; this is evident in pasture rental statistics for the Western U.S. Washington State average AUM rates for private pasture in 2008 were \$12.10/AUM, up significantly from the years prior to that, driven by pasture conversion and hay prices. Rates for pairs were \$13.70, a difference of 13%. *(Note that this is an average value across very diverse range and pasture conditions, lumping irrigated pasture supporting 2 cows per acre with range ground support one cow per 25 acres. Irrigated or productive rain-fed pasture in Western Washington is worth more than desert rangeland. The AUM basis equalizes somewhat, but a lease rate incorporates other external costs such as transportation, water, and labor, and reflects the fact that a cow on dry rangeland expends much more energy per unit of energy gained than a cow on more productive grass.)* Space prevents a more thorough discussion of why rates change. Suffice it to say that pasture lease rates do not follow the Consumer Price Index, hay prices, or cattle prices, or grain prices exclusively or reliably, but are a combination of all of these factors in demand and supply that drive rates.

Written agreement components

The lease document need not be complicated. It can spell out as little or as much as the parties wish. A majority of disputes, including expensive legal disputes, come from miscommunication and not wrongdoing. At the least, a lease should specify:

1. A turnout date, or the criteria by which that decision will be made; 6 inch sward height, 2000 pounds standing biomass, when the balsamroot blooms, when the cheatgrass has seedheads, when the irrigation water comes on, you get the picture.
2. The off date, could be based on 3" stubble height (my recommendation), 50-60% utilization on native bunchgrass, a set date, when the creek freezes, etc.
3. The basis for payment, whether AUMs consumed, or head-days, or dollars per acre, or a flat amount per year regardless of any other factors including whether the grazier stocked the pasture at all.
4. Who is responsible for maintaining fence, water systems, salting, moving the herd through rotations, fertilizer or herbicide applications, and any other pasture inputs; lease rates with absentee landowners in which the grazier does all the work are much lower than those where the grazier drops off the cows and sends the semi to pick them up 3 months later. "An equitable lease compensates the landowner and lessee according to their contributions to the business" (Warnock 1990). Landowners typically pay for any capital improvements.
5. Date payment is due and in what form.
6. Other miscellaneous expectations (keep cows out of Mrs. Jones vegetable garden on the edge of the South 60 pasture or she'll call the sheriff -- it's not open range this side of the powerline, you know . . . She

sure knows!); or what happens if your stockwater and irrigation water get shut off early by the irrigation district, a junior water right holder?

7. Expected condition of the land and equipment when the lease is terminated.

If you weren't convinced yet

Doug Warnock, in Extension Bulletin 1584 (out of print), summarizes the reasons to have agreements in writing:

1. More thought is given to written agreements, and both parties are more apt to study it before signing.
2. A written agreement includes the privileges and responsibilities of both parties.
3. A written agreement prevails through time, preventing disagreements when there is a lapse of memory.
4. The lessee has a better chance of getting operating loans when a written pasture lease agreement is part of the application.
5. The written agreement becomes a directive to survivors or the court when one party dies or is incapacitated.
6. The written agreement provides a procedure for terminating and renewing the lease.

Take the time this winter to write down what is assumed or historically accepted with any oral agreements you currently have and consider developing a written lease agreement. It sustains friendships in the same manner as good fences.