

Examining Share Lease Agreements for Cotton Operations in the Texas High Plains

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Introduction

The Texas High Plains region (AgriLife Extension District 1) produces a sizeable amount of Texas cotton. Crop share lease agreements are a typical practice in this area. A crop share lease is characterized by the landowner and operator each sharing in the cost of growing the crop. In return, crop receipts are shared by both parties based on pre-determined percentages. Most share leases are based upon what is customary for the area. Crop share agreements for cotton in the Texas High Plains typically involve a 33% or a 25% lease. The expenses shared differ greatly, and are based on negotiations between landlord and tenant. This study determines the profit maximizing share agreement for both landlords and tenants producing irrigated cotton in the Texas High Plains.

Table 1. Estimated Costs and Returns per Acre Roundup Ready Flex Cotton, Sprinkler Irrigated
Projected for 2009

	Total Budget			
	Quantity	Unit	Price	Amount
Income				
Cotton Lint	1100.00	lbs	\$0.56	\$616.00
Cotton Seed	0.83	ton	\$235.00	\$195.05
Total Income				\$811.05
Direct Expenses				
Seed	0.22	bags	\$280.00	\$61.60
Insecticide + appl	1.00	acre	\$13.44	\$13.44
Herbicide	1.00	acre	\$31.36	\$31.36
Harvest Aid/Growth Reg + appl	0.75	acre	\$28.00	\$21.00
Fertilizer	125.80	lbs	\$0.63	\$79.25
Custom				
fert application	1.00	acre	\$5.00	\$5.00
crop consultant	1.00	acre	\$7.50	\$7.50
strip and module	11.00	cwt	\$9.50	\$104.50
ginning - cotton	40.48	cwt	\$2.75	\$111.32
Crop Insurance	1.00	acre	\$28.00	\$28.00
Boll Weevil Assessment	1.00	acre	\$12.00	\$12.00
Operator Labor	1.04	hours	\$10.60	\$11.02
Hand Labor	0.19	hours	\$10.60	\$2.02
Irrigation Labor	0.77	hours	\$10.60	\$8.14
Diesel Fuel - Tractors	2.77	gallons	\$2.53	\$7.00
Gasoline - Engines	3.52	gallons	\$2.46	\$8.65
Natural Gas - Pivot	12.00	mcf	\$7.75	\$93.00
Repair & Maintenance				
Implements & Tractors	1.00	acre	\$14.55	\$14.55
Center Pivot	12.00	acre	\$2.03	\$24.36
Interest-operating capital	1.00	acre	\$15.77	\$15.77
Total Direct Expenses				\$659.50
Returns Above Direct Expenses				\$151.55
Fixed Expenses				
Implements & Tractors	1.00	acre	\$22.37	\$22.37
Center Pivot	1.00	acre	\$33.60	\$33.60
Land	1.00	acre	\$60.00	\$60.00
Total Fixed Expenses				\$115.97
Total Expenses				\$775.47
Returns Above Total Expenses				\$35.58
% Return on Investment				4.59%



Results and Conclusions

- The 33% lease agreement shows a distinct advantage for the landlord in most scenarios.
- The 25% lease agreement appears to be slightly more equitable. However, the landlord should share at least four production expenses in order for the return on investment to be comparable between both parties.
- The optimal scenario under a 33% lease (Scenario 5) and the optimal scenario under a 25% lease (Scenario 8) both involve sharing more expenses than is traditional for the Texas High Plains region. Renegotiation of existing leases may be necessary.

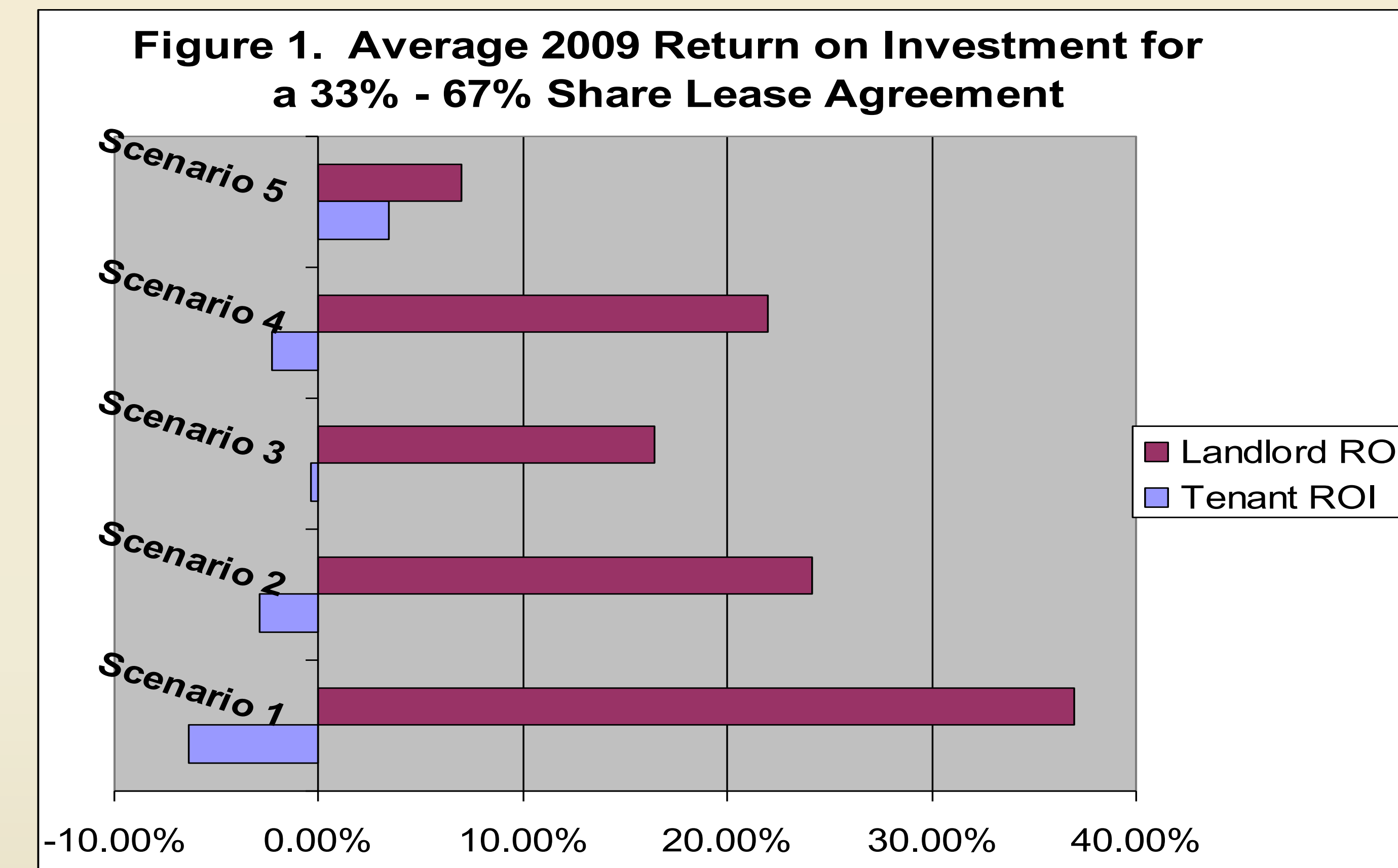
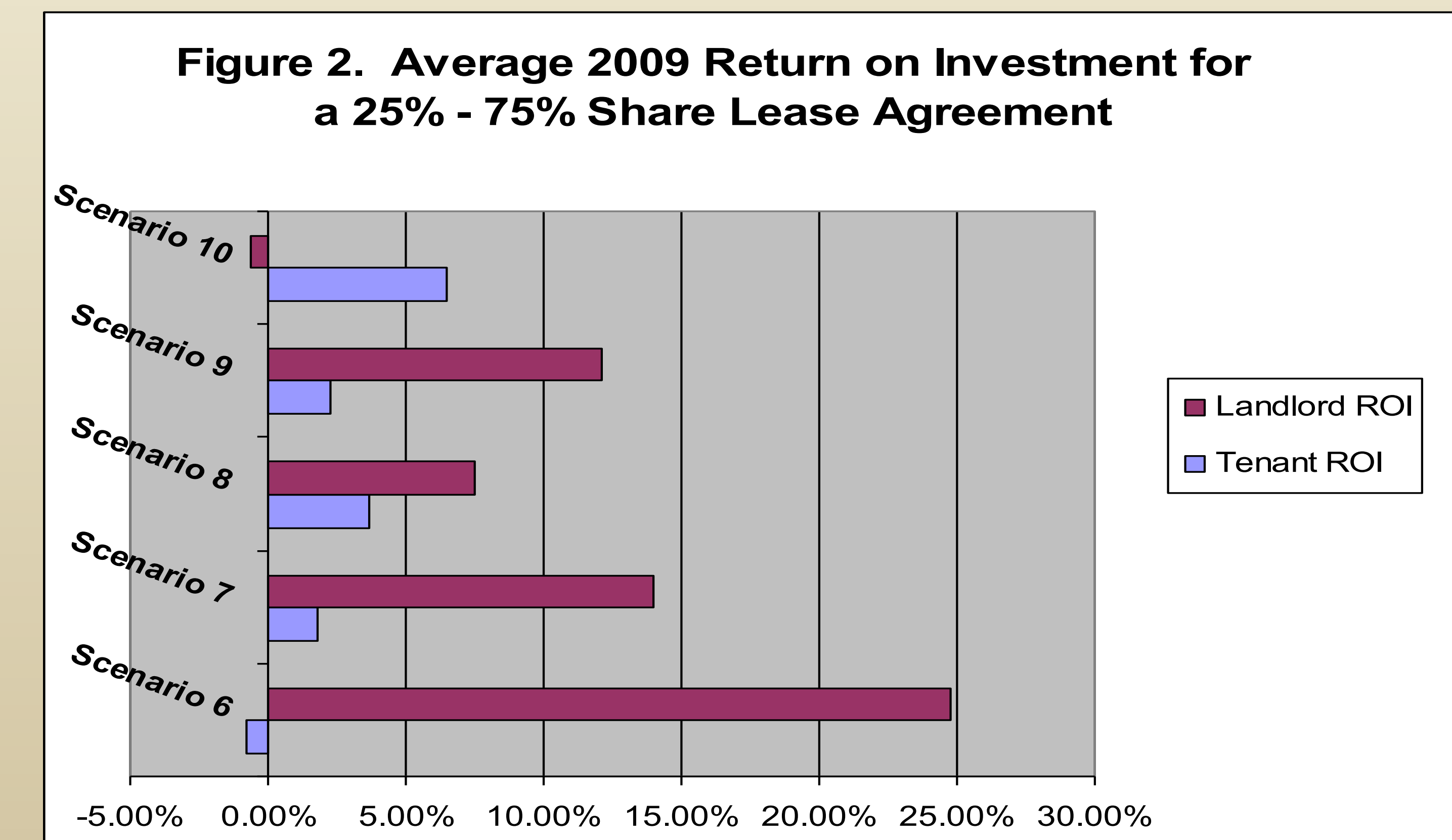


Table 2. Simulated Lease Agreement Scenarios with Various Expenses Shared

Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Landlord Share %				
33%	33%	33%	33%	33%
Input Costs Shared				
Fertilizer Chemicals/Application Irrigation	Fertilizer Chemicals/Application Irrigation Seed	Fertilizer Chemicals/Application Irrigation Harvest	Fertilizer Chemicals/Application Seed Harvest	Fertilizer Chemicals/Application Irrigation Seed Harvest
Scenario 6	Scenario 7	Scenario 8	Scenario 9	Scenario 10
Landlord Share %				
25%	25%	25%	25%	25%
Input Costs Shared				
Fertilizer Chemicals/Application Irrigation	Fertilizer Chemicals/Application Irrigation Seed	Fertilizer Chemicals/Application Irrigation Harvest	Fertilizer Chemicals/Application Seed Harvest	Fertilizer Chemicals/Application Irrigation Seed Harvest



Data and Methods

- 2009 Irrigated Cotton budgets for AgriLife Extension District 1 were entered into an Excel Spreadsheet. A sample 2009 budget for Roundup Ready Flex cotton can be seen in Table 1.
- Different lease agreements were simulated, assuming both a 33% lease and a 25% lease with various expenses shared. Simulated scenarios are shown in Table 2.
- The optimal lease was determined when the percentage of unshared expenses was equal to the percentage of total expenses, and when both parties received a similar return on investment.