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Kansas State University
Research and Extension

FORAGE FACTS
Publication Series

METHODS OF LEASING CROP RESIDUE FOR GRAZING

INTRODUCTION

Grazing crop residue is the key to year-round grazing for many cow-calf and stocker operators throughout Kansas. As is the case with most types of rental arrangements, leasing rates for grazing crop residue are dominated by tradition. “Rules of thumb” rates are commonplace, but generally are poor fits for any given year in the cattle cycle.

Typically, pasture is rented on a per weight per period basis, for a flat rate per acre, or on a gain basis. Depending on the level of involvement by each party in the grazing venture, the most desirable arrangement will vary. Land owners with a track record of above-average animal performance on their ground, whether from providing additional service or not, will be more likely to rent pasture on a gain basis. Landowners who desire a hands-off approach probably will use another method that is less closely tied to animal performance. Regardless, it should be remembered that there is no “one-size-fits-all” pasture lease for crop residue.

MANAGEMENT CONSIDERATIONS

Determining grazing rates for crop residue is a multi-step process. First, the cattle owner must decide which grazing scenario best fits his or her situation. Amount of residue present in any given field, degree of grain drop, location of the field, and cattle market projections are a few of the factors that play a role in selecting stocking rates and grazing scenarios.

Next, the cattle owner must make projections for animal performance, death loss, and the price of feeder cattle at the end of the grazing period. This is essential to project the value of cattle gain leaving a field. The expected off-value less the actual in-price yields the value of gain from which variable and fixed costs, operator labor, and profit are taken. Operator experience and cattle quality dictate projected animal performance.

It is important to be conservative in developing bids in a manner that is dependent upon projected animal performance. If ADG is overestimated, value of gain is overestimated, and the cattle owner could offer a grazing fee that is too high. Likewise, the cattle owner should carefully estimate the costs of keeping cattle on residue. Supplemental feed, veterinary, transportation, fencing, water, and interest expenses all impact the final bid.

METHODS OF LEASING CROP RESIDUE

The per hundred weight per month method is used widely for winter wheat and annual pasture grazing. Producers use the beginning weight of cattle onto pasture rather than an average weight during the season. If the beginning weight is used and weight gains are poor, the cattle owner suffers. Since cattle performance has no bearing on total rent paid, the residue owner has less incentive to provide service for which he or she is not compensated. Conversely, if rent is paid on the average weight during the grazing season, a gain component is embedded in the agreement for the pasture owner. This situation makes it advantageous for the pasture owner to do a good job of managing the livestock for optimum performance.

The flat rate is an appealing method for many landowners who prefer to have no participation in the grazing enterprise and is better suited for residue grazing than for wheat or permanent pasture. Provided minimum cover remains to satisfy conservation plan requirements, the danger of overgrazing is far less worrisome in a residue situation than a wheat pasture situation.

Renting pasture "on the gain" shifts a large portion of the economic incentive for increased animal performance to the landowner. The agreement is negotiated, cattle are weighed going onto pasture, and then weighed at the end of the grazing period. Total gain is multiplied by the negotiated rate per pound to arrive at the total rental fee. Under this arrangement, the pasture owner clearly has an incentive to manage for the greatest possible total gain. Both sides are likely to benefit if the residue owner checks for sick cattle in a timely manner and makes sure water and mineral supplies are current. Rule-of-thumb rates for "on the gain" crop residue rentals should be viewed critically. Again, they are generally poor fits with time as market conditions vary.

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