

# Incorporating Conservation Practices and Improvements into Cropland Leases?

By Michael Langemeier

I often get asked how a tenant or landowner can encourage conservation practices on a rented farm. Conservation practices and improvements will typically not be made unless it is agreed upon in advance how these costs will be shared and the impact of these practices and improvements on production risk. It is also important that the tenant is assured that he or she will be compensated for unexhausted or remaining value of improvements if the lease is terminated. This article will provide cropping practice examples and discuss how investments can be shared.

One of the ways to maintain conservation practices and improvements on leased land is to include a list of cropping practices in a written lease supplement. When considering items that should be included in the lease supplement it is important to consider two items. First, conservation practices and improvements should be agreed to in advance. Second, if an operator or tenant is incurring additional costs or risk, he or she should be compensated during the lease or for some long-term improvements at the end of the leasing period for this fact.

Cropping practice examples that may be included in a lease supplement include, but are not limited to, cover crops, waterways, ground cover, fall tillage and fertilization, crop rotations, and farm ponds. Compensation mechanisms (i.e., rent adjustments) for the items above should be included in the lease. Compensation for permanent practices such as maintaining terraces, windbreaks, or diversion ditches; pasture improvement; and buffer zones typically involves using capital budgeting techniques, such as the use of depreciation and remaining value. Specifically, with permanent practices it is important to keep track of contributions by the landlord and operator, and annual depreciation of each practice, as well as discuss the method used to recover the remaining value of each practice.

It is important to reiterate the importance of economic considerations when creating a lease supplement pertaining to conservation practices and improvements. Crop leases need to provide a business framework that encourages efficient use of capital, labor, and management, and that encourages the use of new technology, in addition to maintaining soil health. In the long-run, net returns should be shared in an equitable manner. Rent adjustments need to be made in situations where the operator or tenant incurs costs related to conservation practices and improvements.

As a final note, good communication between operators and landlords is essential. Landowners should discuss potential practices with the operator, instead of simply insisting that certain practices be utilized. Most operators are interested in renting ground for a long period of time, so they are also interested in long-run productivity and the soil health of each tract of land that they farm.