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# Special Report 1008

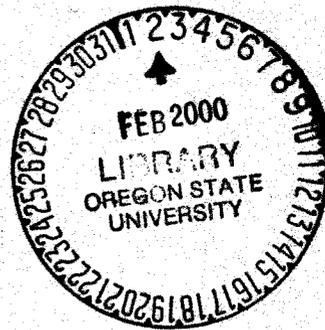
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## Union County Farms— Where, When, and How



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# Union County Farms— Where, When, and How

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# Union County Farms—Where, When, and How

During the winter of 1996, the Union County office of the OSU Extension Service surveyed a group of Union County farmers and ranchers. The survey consisted of questions about the farmers and their operations. The survey questionnaire was tested on a small group of farmers; revised, based in large part on their input; then used in personal interviews. Farmers to be interviewed were selected at random from a list of all commercial farms in Union County. The list was compiled based on the authors' personal knowledge of the area and with the help of others.

Farming operations vary from one part of the county to another; therefore, the county was divided into four regions: north valley, south valley, Elgin, and North Powder. Differences among regions include the number of irrigated acres and the number of crop and livestock enterprises present. Each farm was assigned to an area based on the home base of the farming operation. The north valley and south valley had the majority of the farms; Elgin and North Powder had fewer.

One-third of the farmers in each part of the valley and 50 percent of the farmers in both the Elgin and North Powder areas were interviewed, for a total of 67 farmers. This sample provided an adequate number from each area.

The survey was designed with three objectives:

- To provide a profile of Union County agricultural producers that would be of interest to farmers and ranchers, the agricultural support industry, the nonfarm business community, and those of the general public with an interest in agriculture.
- To compile information about farm lease arrangements and custom farm rates for this area.
- To identify educational and service challenges within the region's farming community.

This publication reports the results of the survey. When possible, the characteristics of the surveyed producers are compared to those of farmers and ranchers throughout Oregon. We found that the basic characteristics of the Union County operators, their land tenure, labor use, business organization,

and land leasing arrangements are similar to averages for the entire state. The overall crop mix is different from that in some other areas of the state because of differing climate, water availability, and soil fertility.

## Age distribution of participating producers

For some time, the age of American farmers has been increasing. Young people growing up on farms and ranches find career and employment opportunities off the farm far more attractive than the "dawn-'til-done" life of their parents. Furthermore, they see their parents becoming increasingly frustrated with poor product prices, government interference, environmental challenges, and a host of other influences and hassles that, when taken together, pose a potentially significant threat to the future of the farm or ranch.

These potential problems threaten both the farm business and the "way of life on the farm." In some cases, parents do not encourage their children to follow them into production agriculture because they do not foresee an attractive future for the industry. All of these factors contribute to the pessimism that may be the most significant reason for the increasing age of farm proprietors.

Union County is no exception to this trend. Table 1 shows the average age of survey respondents as 49.54 years, with the average for the Elgin area being the oldest at 54 and North Powder the youngest at 47. The Union County average was slightly less than the average age for Oregon farmers, which is 53.

Thus, in Union County as well as in the rest of the nation, there is concern about the lack of young people to take over farming businesses as the current generation of farmers approaches retirement. Is the outlook for production agriculture so gloomy that the majority of farm young people will never return? If so, what will happen to farm and ranch units? These questions raise estate and production issues the industry must face head-on in the next 10 to 15 years.

**Table 1.—Age distribution of farmers responding to the Union County farm survey.**

Survey area	Age category	Number of farmers	Average age		Percent in age category
			By age category	By area	
Elgin				54.38	
	25-34	0			0%
	35-44	3	42.67		24%
	45-54	5	49.80		42%
	55-64	2	60.00		17%
	65 & over	2	70.00		17%
North valley				48.65	
	25-34	2	28.50		8%
	35-44	6	37.67		22%
	45-54	9	48.67		35%
	55-64	7	57.00		27%
	65 & over	2	72.50		8%
South valley				48.68	
	25-34	1	25.00		4%
	35-44	9	41.56		41%
	45-54	6	49.33		27%
	55-64	3	59.67		14%
	65 & over	3	65.67		14%
North Powder				47.00	
	25-34	1	34.00		14%
	35-44	3	37.50		43%
	45-54	2	53.50		29%
	55-64	0	—		—
	65 & over	1	61.00		14%
Survey area				49.54	
	25-34	4	29.00		6%
	35-44	20	40.15		30%
	45-54	22	49.09		33%
	55-64	12	58.17		18%
	65 & over	9	68.67		13%

## Business organization

It is widely believed in the agricultural production community that farming is in danger of being taken over by corporate business. The implication is that nonfarm financial interests are invading an industry that historically has been dominated by family ownership of farm or ranch units. In reality, based on National Agricultural Statistical Service<sup>1</sup> data, 90.9 percent of all Oregon farms are owned either by individuals or family corporations, while only 0.6 percent are owned by nonfarm corporations. Nationally, 89.2 percent of all farms are owned by individuals or family corporations, with only 0.4 percent owned by outside corporations.

Table 2 shows that individuals and family corporations own a greater proportion of the farms surveyed in Union County than they do nationwide. All of the corporations reported in the survey were family-held; consequently, all of the farms surveyed were owned and operated by families.

Table 2 shows the business organization of surveyed farms. The majority (83.1 percent) were sole proprietorships. Far fewer were partnerships (9.9 percent) or corporations (7.0 percent). The percentage of partnerships in Union County compares to 7.8 percent in Oregon as a whole and 9.7 percent nationally. The "other" category in Table 2 refers to estates, trusts, or joint ventures, of which there were none among the farms surveyed.

Most farm families who form corporations, family trusts, or limited liability companies do so for estate planning purposes. Based on the data in Table 2, it seems that the farmers surveyed, and by implication farmers in Union County, are forming corporations at a rate similar to farmers across Oregon and the nation.

**Table 2.—Farm business organization of responding farms.**

Business organization	Percent in each category				Area totals
	North valley	South valley	Elgin	North Powder	
Sole proprietorship	81	83	92	100	83.1
Partnership	19	4	8	0	9.9
Corporation	8	13	0	0	7.0
Other	0	0	0	0	0

A "limited liability company" (LLC) is a relatively new form of business organization that is a hybrid between a partnership and a Subchapter S Corporation. "Members" of an LLC have both the limited liability of a shareholder in a corporation and the management capability of a general partner. No LLCs were reported among the farmers surveyed. Considering the estate planning problems inherent in the sole, or individual, proprietorship, and the fact that current land prices make it possible to create a taxable estate without a very large farm, it appears there is potential for a great deal of work in this area.

## Crops produced

Small grains are the dominant crops in Union County in terms of acres, number of farms, and survey respondents. Seventy-three percent of the farms in the survey produced grain, which is not surprising, as Union County ranks 8th in wheat, 4th in barley, and 11th in oats production in Oregon.<sup>2</sup> Grass hay, grass seed, alfalfa, and improved pasture, in that order, were the next most frequently grown crops on the responding farms. Mint was grown on 12 percent of the farms in the survey, mostly in the north valley and south valley areas. These two areas accounted for all of the specialty crops such as peas, canola, pumpkins, cherries, and sugar beets.

Cow-calf enterprises were relatively minor in all areas except North Powder, which had the largest average herd size and the largest percentage of operators with cattle. Across the county, herd size ranged from 20 to 400 cows, with 100 to 150 cows being most common.

There were very few sheep and no large range flocks in the study group. The largest flock had 400 ewes. No respondents reported retaining ownership of lambs. Retained-ownership was uncommon with cattle as well; only five operations reported any extensive holding of young animals over to yearlings, and none reported retaining ownership through the feedlot.

Table 3 illustrates trends in farm income, crop acreage, and livestock numbers based on survey and Census of Agriculture data.

**Table 3.—Farm production and income trends in Union County.**

	1997	1992	1987	1982	1977	1972
Total farm income (x 000)	\$48,723	\$40,865	\$29,233	\$25,066	\$19,629	\$13,371
Farm Forest Products Inc. (x 000)	\$8,000	\$8,700	\$2,640	\$400	\$500	\$80
<b>Acres in:</b>						
Grain	44,000	52,000	45,500	59,000	69,000	55,200
Hay/Forage	34,300	37,950	34,000	31,000	33,000	39,400
Grass seed	7,825	8,030	10,940	10,390	5,460	6,475
Mint	9,388	2,100	290	0	0	0
Sugar beets	855	0	0	0	0	0
Potatoes	520	1,130	830	150	1,350	250
<b>Number of:</b>						
Beef cows	17,000	14,000	14,000	17,500	17,000	21,000
Hogs	1,700	4,500	3,900	7,500	6,000	8,500
Ewes/Sheep	1,300	2,600	2,800	3,000	4,000	3,000

Source: *Union County Farm Survey*, and the 1992 *Census of Agriculture* found on the Internet at:

<http://usda.mannlib.cornell.edu/data-sets/farm/94015/or.txt> and <http://usda.mannlib.cornell.edu/data-sets/farm/94015/us.txt>

## Seasonal and permanent employees

It is not surprising that there were far more seasonal jobs on the reporting farms and ranches than permanent positions. The survey did not differentiate between family labor (either paid or nonpaid) and nonfamily employees. Thus, all workers are treated as nonfamily hires in this discussion.

Overall, survey respondents reported 19 permanent positions and 337 seasonal jobs. The majority of the permanent positions were on operations with livestock as a major enterprise. The largest users of seasonal labor were cherry orchards, followed by livestock producers. Of the 337 seasonal jobs available, only 37 were on farms with neither orchards nor livestock. Most of these were on farms producing seed crops, mint, and potatoes.

One of the labor concerns most frequently voiced by respondents, other than government regulation, was the unavailability of good help, a concern that was articulated most often by farmers who depend heavily on seasonal labor. Wages paid to farm workers (seasonal or permanent) were not included

in the survey. There might be a connection between the scarcity of good help and the low pay, long hours, and often harsh working conditions associated with field and livestock work. These factors also may explain the observed trend toward using migrant workers instead of local high school youth as seasonal workers. Migrant workers apparently are willing to work for less money and under conditions unacceptable to local young people.

## Land leasing arrangements

Leasing is a common method of controlling land without the capital outlay necessary for purchase. Of the respondents, 89 percent leased all or part of the land they farmed. Thus, leasing arrangements and the cost of leasing are of great interest to area farmers and ranchers.

The majority of the leases in the study area were either of indefinite duration or relatively short-term (less than 5 years or with annual renewal). Table 4 shows that 94 percent of the leases held by survey participants fell into these two categories.

There were 53 indefinite-term leases that had been in effect for a long time. Most of these were

**Table 4.—Lease characteristics of surveyed farms.**

Term of lease	Number of leases	Average years in the lease	Range in lease use	Written leases		Lessor is a relative	
				Number	%	Number	%
Indefinite*	53	12	1-46	5	9%	25	47%
6-10 years	8	9	5-16	7	87%	0	0%
2-5 years	36	9	1-48	34	94%	8	22%
Annual**	61	6	1-30	26	42%	5	8%

\*No set term for the lease or for renewal.

\*\*Annual renewal. A number of these were pasture leases on federal or Boise Cascade lands.

verbal, and 47 percent were with relatives. On the other end of the spectrum were 61 annual-renewal (year-to-year) leases. Forty-two percent of the annual renewal leases were written, and only five had a close relative as the landlord. Within the 2- to 10-year categories, there were 33 written leases between nonrelated parties.

Thus, it seems that longer term leases are based on long-standing mutual trust rather than a written agreement and tend to be a popular arrangement between relatives. Short-term leases, on the other hand, seem to be more of an "arm's length" transaction between unrelated parties requiring a written agreement. This is especially true with federal and private grazing permits and leases.

Crop-share and cash leases were split about evenly among the growers surveyed. Out of 162 total leases, 81 were cash leases and 82 were crop-share leases. Land rental rates and crop-share percentages were quite consistent, with very few falling into the "unusual" category. In a few cases, labor or machinery use was traded for use of the land, and there were several unusual crop-share percentages; but most fell into what could be considered a normal, or traditional, range. No livestock share leases were reported.

Cash lease rates were very consistent among the growers surveyed. The lease rate depended on the value of the crop grown. With cash leases, there is no participation in production costs by the landlord. Table 5 summarizes the cash lease rates reported in the survey.

**Table 5.—Average cash lease rates on surveyed farms.**

Crop	Average cash lease rate
Dryland wheat	\$41.00 per acre
Dryland grass seed	\$40.00 per acre
Mint	\$75.00 per acre

Most crop-share rates were a  $\frac{1}{3}$ - $\frac{2}{3}$  split, with  $\frac{1}{3}$  of the crop going to the lessor, and  $\frac{2}{3}$  to the lessee. If input costs (usually fertilizer and crop chemicals) were shared, the percentage was the same as the crop split. For example, if the fertilizer bill came to \$10,000 and the crop split was  $\frac{1}{3}$ - $\frac{2}{3}$ , the lessor would pay \$3,333.33 and the lessee would cover \$6,666.66. They probably would flip a coin or draw straws to see who paid the extra cent. Crop-share percentages and their frequency among the reporting operations are presented in Table 6.

The survey did not ask how the landowner's share of the crop was handled, but there are numerous options. For example, does the tenant sell the entire crop and remit the landowner's share at the time of sale? Is the landowner's share delivered to a public elevator under the landlord's name, or to the landowner's own storage facilities? Who keeps track of total production and handles the split? These questions generally are handled in the lease agreement and are sufficiently complex and potentially contentious that a written lease seems necessary.

Pasture and range lease rates fell between \$11.00 and \$13.00 per animal unit month (aum) on private

**Table 6.—Crop share lease splits on surveyed farms.**

Wheat		Barley		Grass seed		Mint	
Share	Freq.	Share	Freq.	Share	Freq.	Share	Freq.
1/3-2/3	65%	1/3-2/3	66%	1/3-2/3	87%	1/3-2/3	88%
2/5-3/5*	21%	2/5-3/5	17%	2/5-3/5	6%	2/5-3/5	12%
1/4-3/4	3%	1/4-3/4	6%	1/4-3/4	6%		
Other	11%	Other	11%	Other	1%		

\*This split often is expressed as 40%–60% rather than as a fraction.

**Table 7.—Private grazing lease rates on surveyed farms.**

Type of pasture	Lease rate
Dry, fenced pasture	\$11.35 per aum*
Irrigated, fenced pasture	\$12.13 per aum
Open range	\$11.00 per aum
Timbered range	\$12.82 per aum

\*Animal unit month—In terms of forage, the amount of plant material needed to sustain one cow and her calf, or the equivalent, for 1 month.

land. Table 7 summarizes the average lease rates for several classes of private pasture. Bureau of Land Management (BLM) and United States Forest Service (USFS) permit rates, which are set by statute, were \$1.90 per aum. Hay land leases usually were split on a 1/2-1/2 basis with no landowner participation in costs.

## Implications of verbal lease agreements

A verbal lease can have strong standing in the courts if it is for a period of less than 1 year. Any agreement, including a land lease, intended to last more than 12 months falls under an old legal principle called the “Statute of Frauds,” which requires certain contracts to be formal (in writing) in order to be enforceable.<sup>3</sup> Thus, any long-term lease should have a written agreement. Most courts enforce verbal land leases but treat them as “tenancies from year-to-year,” which may be satisfactory if the tenant has made no long-term improvements.

If one of the parties to a verbal lease is elderly or dies unexpectedly, the land might go into an estate. If the estate administrator(s) or heirs question or

contest the lease terms and there is no written agreement, the surviving party to the lease can be in a very uncomfortable position. There also can be an element of confusion or business uncertainty among the heirs regarding an oral lease that can be prevented by having a written lease. Furthermore, if close relatives are involved in a disagreement over a lease, a verbal contract can lead to severe family dissension.

A number of “miscellaneous” issues can come up in connection with farm leasing that may seem trivial until a conflict arises. These issues include the following:

- Termination provisions
- Regular meetings of all parties to the lease
- Provision for conflict resolution
- Procedures to follow in the event the land is sold

Of the 162 leases reported in this study, 12 had some provision for terminating the contract, only 8 had any provision for conflict resolution in the event that discussion among the parties failed to resolve differences, 40 contained procedures to be followed if the land was sold, and 69 had a regular meeting.

None of these issues is important as long as the parties to the lease trust each other and can resolve their differences over a cup of coffee and the issue of the sale of the land never comes up. However, when these things become important, they can lead to major difficulties, even to the extent of litigation and breakup within families. It is extremely difficult to adequately provide for these contingencies with a verbal lease, especially if one of the main parties dies. A disagreement over a lease is an unnecessary hassle to add to the funeral, estate settlement, and other stress associated with a family death.

A well-drafted written lease that periodically is reviewed by all parties can go a long way toward avoiding unnecessary problems. Thus, all land leases should be in writing, especially if they are intended to be of long duration, if the tenant anticipates making long-term improvements, or if close relatives are involved.

## Land ownership patterns

All respondents to the survey owned part of the land they farm. The majority of the farmers and ranchers surveyed also leased either farm land, grazing land, or both. Ninety-two percent of the respondents in the north valley area, 78 percent in the south valley, 100 percent in the Elgin area, and 86 percent in the North Powder area leased part of their land.

Age seemed to have little effect on the proportion of leased to owned land. This result seems contrary to the conventional wisdom that older farmers lease less and own more land. On the other hand, when sons or daughters wish to join the farming business, leasing is often the method of choice for expanding the operation enough to support another family. Indeed, in cases where land is unavailable to purchase, or where it is prohibitively costly, leasing may be the only choice.

## Summary and conclusions

This survey provided interesting information but no great surprises. Farmers in Union County are getting older on average, as are farmers and ranchers nationwide. Most farms in the area were organized as sole proprietorships, with the number of corporations increasing and the number of partnerships decreasing. Wheat, hay, grass seed, and barley

were the dominant crops produced on the farms surveyed. Other reported products were cattle, mint, potatoes, and some "specialty" crops such as cherries, apricots, peas, sugar beets, and improved pasture. Leasing was an important method of controlling farmland; more than 90 percent of the surveyed farmers leased part of the land they worked.

Some educational needs were indicated by the project. With the increasing age of farm operators, estate planning may be of significant interest. Another area of interest may be the legal structure of farm leases and the legal implications of verbal or badly structured written leases. Alternative crops and cropping systems are an interesting topic, especially as grass seed production receives increased public attention as a result of the field burning controversy. Changed cropping systems will require a review of existing lease arrangements to ensure that all parties are treated equitably under a new system. Your county office of the OSU Extension Service can provide additional information and training on these topics.

## Footnotes

<sup>1</sup>1992 *Census of Agriculture* data found on the Internet at: <http://usda.mannlib.cornell.edu/data-sets/farm/94015/or.txt> and <http://usda.mannlib.cornell.edu/data-sets/farm/94015/us.txt>

<sup>2</sup>1996-1997 *Oregon Agricultural and Fisheries Statistics*, Oregon Department of Agriculture and USDA.

<sup>3</sup>Looney, J.W., and Donald L. Uchtmann, *Agricultural Law, Principles and Cases* (McGraw-Hill Inc., New York, 1994), p. 438.

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