#### WASHBURN UNIVERSITY SCHOOL OF LAW KANSAS FARM LEASE LAW/FENCE LAW KSU EXTENSION RURAL LIVING SERIES MARAIS DES CYGNES DISTRICT NOVEMBER 19, 2024

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• "Away-going" crop

# The Importance of Leasing to Agriculture Permits farmers and ranchers to operate larger farm businesses with the same amount of capital Assists beginning farmers and ranchers in establishing a farming or ranching business

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#### Types of Agricultural Leases

- Cash lease
  - Periodic payment of a rental amount that is either a fixed number of \$/acre or fixed amount for the entire farm
- Flexible cash lease
  - Specifies that the amount of cash rent fluctuates with production conditions and/or crop or livestock prices

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#### Types of Agricultural Leases

#### Hybrid cash lease

- Specifies that the rental amount is to be determined by multiplying a set number of bushels by a price determined according to terms of the lease, but at a later date
- Tenant markets the entire crop, the landlord benefits from price increases, and the tenant does not bear the entire risk from low commodity prices

### Types of Agricultural Leases

#### Guaranteed bushel lease (hybrid-cash lease)

 Tenant delivers a set amount of a certain type of grain to a buyer by a specified date; the landlord determines when to sell the grain

#### Minimum cash or crop share lease

- Guaranteed cash minimum; with landlord having the opportunity to share in crop production from a good year without incurring out-of-pocket costs; tenant retains production risks
- Rent is paid in a certain proportion of the crops

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#### M Types of Agricultural Leases

- Crop share lease
  - Rent paid on basis of proportion of crops
  - Expenses shared by agreement
- Livestock share lease
  - Share of livestock, livestock products and crops paid as rent
  - Landlord usually shares expenses
- Irrigation crop-share leases
  - Rent certain proportion of crops produced
  - Landlord shares expenses

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#### M Other Points Concerning Leases

#### Estate planning implications

- Material participation and social security benefits
- Material participation and post-mortem estate planning techniques
- Post-death cash leasing
- Farm program benefits
  - "Active engagement" test

#### **K** FSA Regulations

- · When is a cash lease a cash lease?
  - Notice DCP-172 (Apr. 2, 2007)
    - If any portion of rental payment is based on gross revenue, the lease is a share lease
    - If rent is tied to set amount of production based on future market value that is not associated with the farm's specific production, it's a cash lease

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# K FSA Regulations

 Beginning with 2009 crop year, tenants and their landlords may reach any agreement desired concerning flexing the cash rent payment and lease will still be deemed to be a share-rent arrangement

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#### Mother Farming Arrangements

- Custom cutters
  - Usually treated as independent contractors
- Croppers
  - Not treated as tenants if landlord supplies land and inputs, controls operation of the farm and pays portion of crop to the person raising and harvesting the crop
    - No legally enforceable interest in crop
    - Only has contract right to compensation in-kind for labor
    - No interest in real property to be terminated
    - A "cropper" is an employee (i.e., a wage earner) that is hired to produce a crop.
      - Henney v. Lambert, 237 Iowa 146 , 21 N.W.2d 301 (1946)

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#### Leases and Allocation of Risk

- K & M Enterprises v. Pennington, 764 So. 2d 1089 (La. Ct. App. 2000)
  - Facts: The plaintiff leased ground from the defendant and planted 406 acres to corn. The growing crop was consumed by deer, and the tenant sued to recover the lost crop.
  - **Issue:** Whether the tenant bears the risk of loss of the corn crop



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#### Tenant's Right To Harvest Crops

- What if the land is sold or the tenant dies before the crop is harvested?
- What if a crop is growing at the time of lease termination?
  - Tenant gets the crop if termination not tenant's fault

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- Written lease can specify otherwise
  - But be careful with the written language – Meairs v. Watson (2015)

#### **Doctrine of Emblements**

- Taggart v. Battaglia, 140 Or. Ct. App. 585, 915 P.2d 1001 (1996)
  - Facts: Defendant was a Christmas tree farmer that operated a leased Christmas tree farm. Defendant failed to make lease payments, but landlord did not terminate the lease. Plaintiff purchased the farm from the landlord's estate and defendant executed a quit claim deed giving up all interest in the land. During the next Christmas season, defendant reentered the premises and harvested nearly 200 trees.
  - Issue: Does the doctrine of emblements allow the defendant to harvest the trees?

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of emblements does not apply when the tenant terminates the lease. The execution of the deed also conveyed the growing crop to the buyer.

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#### Statute of Frauds and Agricultural Leases

- Agricultural leases as personal service contracts
  - What happens if either the tenant or the landlord dies during the term of the lease?
    - If landlord dies, heirs assume the lease
       Giltner v. Estate of Giltner (Iowa 2008)
    - What if tenant dies?

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# Ames v. Sayler, 267 III. App. 3d 672, 642 N.E. 2d 1340 (1994) Facts: Parties entered into an oral lease of farmland. After 20 years, the tenant died. Issue: May the tenant's heirs assume the lease?

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#### Distinguishing Ames v. Sayler

- Wilson v. Fieldgrove (Neb. 2010)
  - Oral cash lease and death of tenant
  - No statutory notice requirement
     Common law 6 months
  - Sharecrop leases are generally personal service contracts
  - Cash leases do not die with the tenant
     Tenant's services not involved

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#### Doctrine of Emblements

- Death of the landlord with a growing crop in the field
  - Landlord owns a fee simple
    - Landlord's heirs succeed to landlord's share of the crop
  - Landlord owns a life estate (issue is who get's the deceased landlord's share – the estate or the holder of the remainder?)
    - Growing crops generally held to be personal property – landlord's crop share becomes personal property of landlord's estate (KS approach)
       Note: Colorado and Oregon courts have held otherwise

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#### M Permanent Improvements

- General rule is that permanent improvements belong to the landlord
- The question is whether the improvement has become part of the real estate

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#### Sale of Leased Property

- New owner normally takes the property subject to the existing lease
- Tenant need not agree to be the tenant of the new owner
- If tenant already paid rent, no need to pay new owner for same time period
- Selling landlord can require tenant to pay for any past due rent caused by tenant's abandonment of property before the sale

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#### Nonpayment of Rent

- If late three months, landlord can terminate lease on 10-days' written notice
  - Tenant might pay during the 10 days
- Unpaid rent gives landlord a lien on "crops" growing on or harvested from the leased premises
  - Superior to prior existing security interests on crops
    - Attaches to landlord's share of the crop (crop-share)
    - LL has right to possess crop until rent is paid
    - $\hfill \cdot$  Cash rent must file to perfect

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<u>مشم</u>	Requirement That Contracts Be In Writing	
	<ul> <li>Certain contracts must be in writing to be enforceable</li> <li>Marriage contracts</li> <li>Surety contracts</li> <li>Real estate contracts (except certain leases) <ul> <li>Part performance exceptions</li> </ul> </li> <li>Contracts that cannot be performed within one year</li> <li>Contracts for the sale of goods worth \$500 or more</li> <li>Contracts for "personal property" worth \$5,000 or more</li> <li>Right-of-first refusal in real estate</li> <li>Miscellaneous state requirements</li> </ul>	
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Part performance

- Part performance (i.e. planting a crop) can remove the lease from the statute of frauds requirements
  - Stuber v. Sowder (Kan. 1935)
- Promissory estoppel/detrimental reliance
  - Possession by tenant may remove statute of frauds requirement
    - Kolkman v. Roth (Iowa 2003)
    - Rhodes v. Sigler (Illinois 1975)

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#### Motice of Termination of Oral Ag Leases

- State law controls
- State lease law is quite different from state to state
  - Types of crops
  - Cropping seasons
  - Pasture lease rules may be different from crop lease rules (in some states, but not KS)

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#### M Oil and Gas Leases

- Conveyance of the mineral interest by sale of the lease
  - Oil and gas, while in the ground, are considered part of the realty
    - Rights can be conveyed by deed
    - Mineral interests may be severed from the surface
    - Upon sale of land, if no reservation made, presumption is that no severance has occurred
    - Many landowners prefer to retain ownership of surface and lease the mineral rights

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#### M Oil and Gas Leases

#### Power to sell or lease

- Majority owners of mineral interests protected if one or more of holders of minority interests becomes unknown
  - District court appoints a receiver who can negotiate for sale or lease of the interest
- Owners of less than fee interests must usually join in executing an oil and gas lease

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#### 💑 Oil and Gas Leases

- Contractual provisions
  - Use of surface
    - Lessee typically has right to enter land and explore for minerals (drill) and begin production if discovered
      - Includes implied right to use as much of surface as is reasonably necessary to exercise development rights (i.e., laying pipelines, building roads, constructing buildings)
         May need additional contract language to restrict location
      - of wells and/or structures
      - May want provision requiring lessor's approval concerning location of wells, structures and roads

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#### M Oil and Gas Leases

#### Contractual provisions

- Water use clauses tend to be broad
  - Landowner may want to limit use of water by operator
    - Reserve all fresh water or limit operator's use to such amounts as will not interfere with landowner's usage
    - Limit usage to primary production activities
    - No interference with landowner's use or intended use for irrigation purposes
    - Drilling operations not to interfere with irrigation practices during irrigation seasons and until crops harvested

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#### Oil and Gas Leases – Surface Damage Clauses

- Trotter v. Wells Petroleum Corp., 11 Kan. App.2d 679, 732 P.2d 797 (1987)
  - Facts: The plaintiff purchased land with oil production and leased the land to the defendant. The defendant buried a pipeline under the plaintiff's pasture and in the process damaged the pasture grass. The lease contract stated:
     "Lessee shall bury his pipe below plow depth and promptly cover and level all pits" and "Lessee shall pay all damages caused by its operations to growing crops...."
  - Issue: Is the plaintiff's pasture a "growing crop" that is subject to the damage provisions of the lease?

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#### Oil and Gas Leases – Surface Damage Clauses Trotter v. Wells Petroleum Corp., 11 Kan. App.2d 679, 732 P.2d 797 (1987) Conclusion: No. No evidence was offered to indicate the defendant in any way cultivated or worked the pasture so as to alter its natural growth. A reference to "plow depth" in connection with "growing crops" only covers crops resulting from planting, cultivation and labor.

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#### 💑 Oil and Gas Leases

#### Common contract clauses

- Pooling clause
  - Pooling –putting together tracts or parts of tracts to form a drilling unit
    - Pooling clauses may not be required under state law (but may be entered into voluntarily)
      - » Typical acreage unit for gas is 640 acres
      - » Lease likely to remain in force if lessee operating either land covered by lease or other land pooled with it

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#### 💑 Oil and Gas Leases

#### Common contract clauses

- Unitization clause
  - Bringing together producing properties over a producing reservoir so a single operator can maximize production from that reservoir
    - Note: State law may establish a procedure whereby unitization may be ordered by a state agency in limited circumstances involving secondary recovery activities

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• For gas, royalty usually paid under long-term contract

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# Oil and Gas Leases Common contract clauses Storage provision Payment may be made to owner for storage, even in absence of drilling Payment may be low in light of possible interference with surface use Lease may contain clause allowing lease to remain in effect so long as gas storage continues Complete flexibility to lessee in continuation of lease, but no compensation to landlord for use in gas storage May want to negotiate a separate agreement

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#### M Oil and Gas Leases Common contract clauses - Surrender clause • Provides a means or relieving lessee of any obligations once it is apparent that lease is no longer profitable - Forfeiture could occur simply on failure to drill or failure to pay delay rental - Typically gives lessee right to remove machinery and other structures - Should be in writing and filed with Register of Deeds so that title to premises will be unencumbered in the future 49

#### Wind Energy Leases ٨Ŵ (Suggested Provisions)

- · What part of the land is subject to the agreement?
- · What events trigger early termination?
- Automatic renewal clause?
- When must construction commence?
- · Compensation for land use restrictions?
- Landowner's rights to use the property?
- USDA farm program complications?
- · Liability for actions of third parties

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#### Munting Leases

- Key consideration
  - Potential liability sustained or caused by hunters on the property
    - Recreational use statutes vary from state to state

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#### Munting Lease

- Not really a lease, but a license to use the property for hunting purposes
  - Contract right to use defined by the parties
  - Get it in writing
    - Identify parties
    - Property description
    - Types of hunting allowed and when allowed

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- Termination provision
- Renewals?
- · Liability waiver and indemnification
- Payment terms

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#### Rural Fences

- Primary issues:
  - "Partition"
  - Construction and maintenance
  - Liability for damages caused by escaped livestock
  - Fence viewers
  - Stray animals

## Partition Fences and Location

- A partition fence is to be placed on the line between tracts of land owned by different persons.
- But, it can be located entirely on one side of the boundary
  - This can become the actual boundary via passage of time
  - In ag, usage of property may determine a boundary more often than does a survey.

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#### Doctrine of Practical Location

- Applies whether the parties know the existing fence is not on the boundary, but don't know where the boundary is located
  - After 15 years, the usage of the fence in this location can cause it to become the boundary

### Building and Maintenance of Partition Fences

- The equal share rule (but it's not halves)
  - "...so long as the parties continue to occupy or improve such lands, unless otherwise agreed."
  - Can modify by agreement
  - Can enter the neighboring land at reasonable times and in reasonable manner to maintain fence
    - "Reasonability" is a fact-based determination
- The reality "right-hand" rule
- Is there a written fence agreement?
  - Can record it to bind current and subsequent owners

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#### Kence-In Jurisdiction

- Livestock owners must keep their animals fenced in
- But, there's a limitation... – Equal share rule

#### Kence-In, But.....

- What if a livestock owner shares a fence with a crop farmer?
  - Crop farmer doesn't want to share equally in the cost of building and maintenance
    - Can bar recovery of damages if livestock escape part of fence crop farmer was responsible for
    - Can be responsible to others for trespassing livestock damage

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# What if Non-Livestock Owner Doesn't Want Land Enclosed? Search of the source of the sour

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#### Mandling Fence Disputes

 Decision of fence viewers must be by majority vote

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#### K Fence Viewers

- Commissioners may act as a board collectively, or any two of them may be appointed
  - Act upon application of landowner for a view
  - Viewers only have jurisdiction over building and maintenance disputes
    - Cannot order an existing fence to be moved
  - After view, will assign to each party, in writing, an equal share or part of the fence to build, maintain or repair.
    - · Decision is recorded in county Register of Deeds office

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#### Fence Viewers

- If acting as "fence viewers," decision is final, conclusive, non-appealable and binding on parties and all succeeding occupants of the land
- If commissioners do not appoint "any two of them," any decision is deemed to be a board decision
  - Triggers normal appeal rules
    - Notice of appeal served on board's clerk within 30 days; appealing party must provide a bond and pay necessary costs

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#### Kence Viewers

- What if a party doesn't abide by the decision of the viewers?
  - Other party may erect, repair or maintain the entire fence and charge the non-performing party for its share of the cost of the fence, plus interest (1%/mo.) and att'y fees if legal action needed to collect

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# Procedure – The Riley County Saga Kunze v. Schwartz (2001) Call viewers Viewers make decision One party doesn't comply Call viewers again to make second view to determine that fence needs built/repaired Building/maintenance conducted Viewers make third view to certify work and amount claimed due

- Nonperforming party billed

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### What Type of Fence Can Be Required?

- · Legal fence in the county
  - Barbed wire with at least 3 wires
  - Other types listed in statute
  - At discretion of viewers, a brook, river, creek, ditch and equivalent constructs may be deemed to be a legal fence.
  - County commissioners can enact more stringent legal fencing requirements on a countywide basis

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#### Fence-In Jurisdictions

- If livestock escape a fence that is in good repair, the owner is generally not liable for any resulting damages absent a showing of negligence. Evidence of negligence
  - Gates left open
  - Fence improperly constructed or maintained

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- Knowledge that animals are in heat and not constructing a stronger enclosure
- Knowledge that animals are out and not attempting to return them

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# What if animals trespass onto another owner's property and cause damage? Can retain the animals until payment made for damages, plus reasonable costs

- Owner must be notified within 24 hours
- Once notice given, can only hold for 5 days without brining legal action against owner
- Alternatively, Sheriff can take animals into
  - custody and give notice.
    - 10 days to reclaim and pay costs
       If not reclaimed, sold at auction

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## Strays (owner not known)

- Sheriff notified within 24 hours
- Party finding them gets an agister's lien for feed and care costs

#### Fence Laws and Trespassing Livestock

- Moving livestock on a public roadway

   Usually permissible if animals are under control
  - Stock owner is typically strictly liable for any damages.

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#### Highway Fences

- The farmer is responsible for maintaining the inner fence and the state department of transportation is responsible for maintaining the outer fence
  - The land between the fences causes weed control problems

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#### Highway Fences

- What responsibility does the state have to the motoring public with respect to building and maintaining highway fences?
  - Must they maintain a "cattle-tight" fence?
  - Must they fence the entire road frontage of a particular parcel?

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Public Roads Through Privat Pastures	е
<ul> <li>May exist by authorization of county commissioners</li> </ul>	
<ul> <li>Can permit a gate and fence to be pl across certain public roads</li> </ul>	ace
<ul> <li>Cannot authorize locking of a gate th bar the general public from accessin road</li> </ul>	
Auto gate or cattleguard	

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#### Mighway Fences

• KDOT has a common law duty to keep the highways in a reasonably safe condition

#### Highway Fences

- Reynolds v. KDOT, 30 P.3d 1041 (Kan. Ct. App. 2001)
  - Facts: Tenant grazed cattle in pasture on west side of highway. A highway fence constructed by KDOT was built up and around a double-box culvert. The tenant fenced the mouth of the culvert, but fence would wash out periodically and cattle would escape to orchard on other side of road. The fence on the east side of the highway was in disrepair. A car struck a cow on the road killing one occupant and injuring another.
  - Issue: (1) Does KDOT have a statutory duty to maintain cattle-tight fences? (2)Was KDOT negligent in not repairing a damaged highway fence?

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#### Civil Liabilities

- Cow/vehicle accident
  - Lee v. Kaup Kattle Co., 2022 U.S. Dist. LEXIS
     93306 (D. Kan. May 24, 2022)
    - Accident on I-70 near Goodland.
    - Plaintiff traveling 80 mph at night with some visibility issues.
    - · Dead cow in interstate
    - · Negligence and comparative fault claims
    - · Defendant denied s.j. on negligence claim
    - Partial s.j. on comparative fault (unknown trespasser?)
    - · KDOT did not breach its duty of care

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#### THANK YOU!

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