

Recommendations from the 1993 Grazing Fee Study

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Grazing fees on public lands have been an issue since before the Forest Service established grazing regulations in 1906. The Grazing Fee Task Group (Task Group) was formed in May of 1992 by the Bureau of Land Management (BLM) and USDA Forest Service (USFS) to evaluate the grazing fee issue on federal lands administered by the two agencies. The Task Group was part of the Incentive-Based Grazing Fee Task Force.

At the onset, the Task Group realized that no grazing fee system existed nor could one be devised that would satisfy all interested parties. Past grazing fee studies were reviewed and a background document prepared that provided the basis for future work. Procedures were developed to evaluate alternative methods of determining forage value and information was collected on grazing costs in Idaho, New Mexico, and Wyoming. Forage values were estimated, and compared to previous work and value estimates determined using market appraisal techniques. Various pricing area alternatives were tested. Finally, recommendations were made on how forage values should be determined and updated.

This paper gives the recommendations of the Task Group's efforts. The full report was completed in June 1993 (Bartlett et al. 1993). A summary of the full report is also available (Torell et al. 1993).

Objectives

The Task Group was given two directives: (1) recommend a method for establishing grazing fees, which includes a procedure for updating fees periodically, and (2) recommend pricing areas to use in establishing fees. The major task was to evaluate alternative methods that could be used to estimate the value of public land forage.

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Alternative pricing areas and appropriate methods for updating grazing fees were also examined.

The primary evaluation criterion for establishing grazing fees was that fees should be based on the economic value of the forage. This criterion requires that estimates of forage values be based on accepted methods and procedures. Valuation methods should consider differences in productivity and non-fee grazing costs. Grazing cost differences are also important when defining pricing areas.

Other criteria were considered in addition to the market value of forage. These included net payments to state and county governments, program cost recovery, administrative feasibility, maintaining market value over time, ability-to-pay, and productivity and ecological variations. The Task Group also considered shared use, community and industry stability, equity to livestock producers with and without federal permits, benefits to other uses of public lands, cultural and minority effects, and size of ranching operation. While considered, these factors were incorporated into other criteria or deleted as criteria in the study.

Limited studies in selected areas (Idaho, New Mexico, and Wyoming) were conducted for testing and evaluation of alternative fee systems and pricing areas. Forage valuation methods included a total cost comparison of the fee and non-fee costs of grazing private and public rangelands, a market appraisal of private leases, and the value of forage implied by public land grazing permits.

Recommendations

It is important to move forward on the grazing fee issue. The controversy surrounding the fee has disrupted the ranch real estate market; created uncertainty for ranchers, lenders, and rural communities in the West; occupied an inordinate amount of time by policy makers; and detracted from the management of public lands. A resolution of the grazing fee issue would lead to more stability within the livestock industry and dependent rural communities and would allow the BLM and USFS to concentrate on managing and improving rangeland resources.

Given the variability of results in this study, the Task Group had difficulty making an absolute recommendation concerning the appropriate method for determining forage value for both federal land agencies and for both sheep and cattle enterprises. Several of the methods

examined produced comparable results for BLM cattle allotments, but results were inconsistent for USFS and sheep allotments. The following recommendations deal with alternative forage valuation methods, pricing areas, and ways of updating fees through time.

Recommendation: The grazing fee should be administratively or legislatively determined within the range of \$3 to \$5/AUM.

Each method examined for valuing public forage had limitations. It is futile to apply any method in an attempt to derive an absolute value for public forage. A comparison to the private forage market has been used historically to estimate the value of public land forage, and we originally thought the price comparison method had the greatest potential for updating public land grazing fees. This method requires the assumptions that (1) ranchers are profit maximizers, (2) alternatives to public land grazing are available, and (3) public and private leasing arrangements, terms, conditions, and rangeland quality are comparable, or adjustments for any differences can be made. The results of this study led us to conclude that private forage comparison methods fail to meet one or more of these assumptions. There are obviously many factors in addition to profit that enter into the decision to use public and private land. The complementary value of public and private resources and the personal utility from ranching as a way of life are obvious examples.

This recommendation relied heavily upon the permit value approach. Permit value is the only direct estimate of value for public land grazing that is determined in a competitive market. The total cost approach results for cattle on BLM allotments were also within the \$3 to \$5/AUM range. Increasing grazing fees theoretically reallocates permit value (or some portion of permit value) to federal land agencies, with the implication that it belongs there. The fairness of this reallocation has been and will continue to be a topic of discussion.

Recommendation: Any base forage value should be applied Westwide.

Our study results and the earlier 1966 grazing cost study indicated that there is no economic justification for setting different grazing fees based on geographic or ecological boundaries. To reiterate what was stated nearly 25 years ago by Houseman et al. (1968, p. 2), and reinforced from our study results:

Differences among ranching areas, as shown by the data, were not large enough in relation to the wide variation that existed within areas to provide a basis for recommending differential base fees among ranching areas.

Recommendation: Any base grazing value should be updated annually with the forage value index.

Evaluation of the PRIA indices revealed that the previous year's Forage Value Index is the best predictor of private lease market changes. The Beef Cattle Price Index and Prices Paid Index have not helped explain short-term variation in forage value as envisioned when these indices

were added to the current grazing fee formula. The Forage Value Index considers rancher's ability-to-pay because expected beef prices and production costs influence private lease rates when lessees and lessors negotiate a lease price.

A new base period would need to be set for the Forage Value Index. The period 1987 through 1991 is a recent 5-year period that could be used which includes values near the top and bottom of the beef price cycle.

The Task Group concurred with the suggestion made in the 1986 grazing fee study (USDA/USDI 1986) that the Forage Value Index be derived by weighting the individual state lease rates by the number of federal AUM's in the state rather than by the number of private lease observations. This would give a higher weighting to lease rates in those states with the most public lands. Adjustments in the weighting scheme would need to be made for those states that have an inadequate number of private leases from which to draw an adequate sample.

Recommendation: The BLM and USFS should investigate the potential of implementing a competitive bid system that would create a market for public land grazing.

Economists, appraisers, and politicians have never been able to resolve the grazing fee issue, nor can they be expected to completely resolve the issue in the future. A competitive market is really the only way to reveal public land grazing values, especially on an allotment-by-allotment basis. Without the benefits of such a market, current methods for valuing public land forage have many inadequacies, so much so that a defensible absolute value of public grazing cannot be determined. Thus, for the short-run, the Task Group recommends that no particular methodology be utilized to establish forage value.

This study and others have documented that the value of grazing public lands varies greatly between allotments. The costs associated with each allotment as well as the benefits derived are unique. To determine the actual market value of grazing public lands, a competitive market is necessary. Creating a market for public land grazing through a competitive bid system may accomplish this objective. A competitive bid approach for valuing public grazing was suggested thirty years ago by Gardner (1963) and was proposed by the Office of Management and Budget in the 1980's. However, competitive bidding was not explored and tested in this study and would require substantial examination before a recommendation to implement a competitive bidding process could be made.

Under a competitive bidding system, bids for public land forage would be for specific allotments; thus, the need for pricing areas would be eliminated. The length of each lease would need to be determined, but if a reasonably short time frame were used, it would not be necessary to index or update grazing fees with indices.

We recognize competitive bidding would require major changes in policy and that these would have to be addressed. Some of the major concerns about a competi-

tive bidding system include:

1. How to equitably reallocate value from current ranchers? Past grazing fee policy has contributed to the value of grazing permits and current ranchers have paid this cost. Some of the value for public land grazing has been capitalized into the value of public land ranches and is bought and sold in the ranch real estate market. A competitive bid would be expected to eliminate permit value because the tenure of the permit would be uncertain and higher grazing fees would be expected. Higher grazing fees, no matter how they are determined, should reduce or eliminate the value of grazing permits.
2. Should present permittees have the right to match the highest bid?
3. How to determine the terms and conditions of competitive leases? Specifically, items which will need to be addressed from a policy perspective include: duration of lease, provisions for minimum bids to cover administrative costs or handle small, scattered parcels, qualifying bidders, commensurate property requirements, common or group allotments, and control of range improvements by existing permit holders (e.g., watering facilities on the current permittee's deeded rangeland).

Further evaluation of the competitive bid option may show that this method is politically unacceptable, that it will not be cost effective, or that it will not work for many small, scattered land parcels.

It should be recognized that the cost of government administration does not determine or influence the value of the forage for productive uses. Comparisons should be made between any forage valuation method and government administration costs to strive for administrative efficiency in the management process.

Recommendation: Additional studies to define the market of public land forage using market price comparisons are not justified.

We do not feel additional studies to define the apparent market value of forage by state or geographic area are justified. The results of the 1966 and 1992 grazing cost surveys demonstrate that little additional insight would be gained about the value of public land forage; large variability precludes further refinement of regionalized values. More studies to estimate the impacts to ranchers from higher fees and other proposed policy changes are needed. This information would help policy makers better understand the consequences of changing land use policies.

Recent Developments

The report on the Incentive-Based Grazing Fee System was released by BLM Director on August 13, 1993. Prior to the publication of the Task Group's report, the Department of the Interior in cooperation with the Department of Agriculture released Rangeland Reform '94, which contained a grazing fee proposal of \$4.28/AUM as well as other range and grazing policies. The western livestock

industry, through the western Livestock Producers Alliance (WLPA), have also developed a new grazing fee formula.

In Rangeland Reform '94 the federal land agencies estimated the value of public land forage to be in the \$3 to 5/AUM range. They calculated this value by indexing the Public Rangeland Improvement Act (PRIA) fee formula that is currently used to set federal grazing fees, and by using a 1983 appraisal of grazing values (USDA/USDI 1986). They pointed out that the study reported here found a similar range of values and offered this as support to the fee proposal in Rangeland Reform '94.

On August 27, 1993, we (the outside [University] authors of the Task Group report) submitted a comment letter to BLM to reiterate the following important points that were made in the study but not mentioned in Rangeland Reform '94. First, we agreed with the interpretation of BLM and USFS that the market value of public land forage is highly variable but in the range of \$3 to 5/AUM. We pointed out, however, that our estimate of value relied heavily on what ranchers had paid in total to lease public land forage, including non-fee grazing costs and investments to buy the grazing permit. In most instances, a total cost comparison between private and public leases did not support the \$3 to \$5/AUM value. In fact, the total cost comparison for some USFS allotments and for all sheep allotments resulted in negative forage values even before the grazing permit investment was considered.

The grazing fee policy discussion in Rangeland Reform '94 did not mention the reallocation of permit that would be expected with higher grazing fees and altered land use policies. This was a major point in the Task Group's report and an issue that must be resolved as the grazing fee issue is further debated. The allocation of permit value is a key issue to be resolved in setting grazing fees. By proposing a base fee of \$3.96/AUM, the implication is that the value of public land grazing permits belongs to the federal government and will be reallocated from ranchers to the government. It is important for those setting grazing fee policy, and the general public, to realize that a reallocation of wealth is expected as grazing fees increase.

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