

## MEMORANDUM

**DATE:** March 2, 2015

**TO:** SITLA Board of Trustees

**FROM:** Kim S. Christy, Deputy Director

**SUBJECT:** Adoption of Grazing Assessments for the 2015-2016 Grazing Season – Consent Request

### **Action Requested:**

- 1) Consent to adopt the standard grazing assessment of \$5.03 per AUM for the 2015–2016 grazing season, adjusted by the formula adopted by the Board in 2009.
- 2) Consent to also adopt a separate grazing assessment of \$8.76 per AUM for selected land blocks for the 2015–2016 grazing season, adjusted by the formula adopted by the Board in 2009.

**Background:** Given the importance of the grazing program to a significant segment of Utah’s economy and the Agency’s legal mandate to receive no less than fair-market value for the use of its lands to support its beneficiaries, in March of 2003, the Board of Trustees directed the Agency to evaluate the merits of creating a separate grazing assessment structure for selected land blocks and to explore ways of improving the overall grazing program, including stewardship practices. After two years of extensive analysis, including professional guidance from two respected agricultural economists and input from industry leaders and other stakeholders, a completely new structure for grazing assessments was adopted by the Board of Trustees.

The major questions which were asked in the evaluation process were:

1. What were other western trust land agencies receiving for grazing assessments?
2. What was the grazing permit term in other western states?
3. What were permittees charging to sublease trust land grazing permits?
4. What were other Utah land-owning agencies charging for grazing assessments?
5. What did trust land grazing permits sell for in the open market?
6. What did Utah landowners charge for non-irrigated grazing permits on private land?

The new structure implemented by the Board of Trustees included:

1. A two-tiered grazing assessment with selected blocks having a higher assessment than the standard assessment, which applies to the remaining trust land.
2. The standard assessment increased from \$2.35/AUM<sup>1</sup> to \$3.90/AUM over a three-year period.
3. The block assessment increased from \$2.35/AUM to \$7.00/AUM over a five-year period.
4. Amending Agency rules to allow for a 50/50 split of revenues derived from subleasing grazing permits.
5. The commitment of up to 10% of the Agency's annual grazing proceeds for qualifying capital range-improvement projects.
6. Amending Agency rules to allow for the extension of a grazing permit term when substantial expenses are assumed by the incumbent permittee for approved range-improvement projects.
7. Finally, a grazing assessment formula was adopted in FY 2009, which was to be applied in setting future annual grazing fees. It was determined that the formula would not apply until incremental increases described in items #2 and #3 above were met. The application of the formula is now in its fifth year where it is applicable to both the standard grazing assessment and selected land blocks. The formula is intended to keep assessments relatively stable into the future, yet sensitive to inflationary or deflationary pressures, depending on what changes occur in private lease rates.

The following table represents a summary of the incremental fee adjustments approved under items 1, 2, 3, and 7 above:

Grazing Season	Standard Assessment + Weed Fee	Block Assessment + Weed Fee
2005-2006	\$2.75 + \$0.10 = \$2.85	\$4.90 + \$0.10 = \$5.00
2006-2007	\$3.10 + \$0.10 = \$3.20	\$5.30 + \$0.10 = \$5.40
2007-2008	\$3.45 + \$0.10 = \$3.55	\$5.70 + \$0.10 = \$5.80
2008-2009	\$3.80 + \$0.10 = \$3.90	\$6.10 + \$0.10 = \$6.20
2009-2010	\$3.86 + \$0.10 = \$3.96 (Adjusted by Formula)	\$6.50 + \$0.10 = \$6.60
2010-2011	\$3.92 + \$0.10 = \$4.02 (Adjusted by Formula)	\$6.90 + \$0.10 = \$7.00
2011-2012	\$4.02 + \$0.10 = \$4.12	\$7.07 + \$0.10 = \$7.17

<sup>1</sup> Grazing fees are based on the amount of forage an animal consumes in a month. The base measurement is called an Animal Unit Month (AUM). An AUM is defined as the amount of forage a cow and her calf (or their combined equivalent) consumes in a month.

	(Adjusted by Formula)	(Adjusted by Formula)
2012-2013	\$4.12 + \$0.10 = 4.22 (Adjusted by Formula)	\$7.24 + \$0.10 = \$7.34 (Adjusted by Formula)
2013-2014	\$4.35 + \$0.10 = \$4.45 (Adjusted by Formula)	\$7.64 + \$0.10 = \$7.74 (Adjusted by Formula)
2014-2015	\$4.68 + \$0.10 = \$4.78 (Adjusted by Formula)	\$8.22 + \$0.10 = \$8.32 (Adjusted by Formula)
<b>2015-2016 (Proposed)</b>	<b>\$4.93 + \$0.10 = \$5.03 (Adjusted by Formula)</b>	<b>\$8.66 + \$0.10 = \$8.76 (Adjusted by Formula)</b>

The Agency believes the results of these changes have been positive for both the Trust and livestock users. Annual grazing program revenues have steadily increased from \$350,000 in FY 2001 to \$1,061,791 in FY 2014. The changes have also resulted in increased security for grazing permittees as well as increased stewardship through the implementation of a wide variety of range-improvement projects around the state.

**Grazing Fee Formula:**

The formula adopted by the Board in 2009 essentially is structured to reflect market changes occurring in Utah’s private lease rates and is derived through statistical regression analysis of lease rates over the last five decades. It creates an index from current Utah private, non-irrigated lease rates compared to the previous year’s private lease rate. The formula is designed to be used each year to establish the index for the next year:

$$UTFVI_t = 1.01787 \times UTFV_{t-1} / UTFV_{t-2}$$

Where: UTFVI<sub>t</sub> = Utah Forage Value Index  
 UTFV = Utah private lease rate (as reported by USDA NASS)

The formula applies private lease rates as reported from USDA National Agricultural Statistics Service (NASS) each year (usually available by February of each year). The 2014 NASS report indicates that the Utah private grazing lease rate is \$15.00 per AUM, up \$0.50 per AUM from the previous year. The private lease forage ratio is therefore recognized as \$15.00/\$14.50 = 1.034483. With the private lease forage value ratio for 2014 being 1.034483, the UTFVI for 2015/2016 is:

$$UTFVI_{2015} = 1.01787 \times (\$15.00/\$14.50)$$

or, 1.052969

The UTFVI estimate for FY 2015/2016 is multiplied by \$4.68 (TLA<sub>t-1</sub>) to yield an assessment of \$4.93 per AUM (plus \$0.10 per AUM weed fee) for the 2015/2016 standard grazing assessment.

Applying the formula to selected land blocks yields the following:

$$\text{UTFVI}_{2015} = 1.01787 \times (\$15.00/\$14.50)$$

or, 1.052969

The UTFVI estimate for FY 2015/2016 is multiplied by \$8.22 ( $\text{TLA}_{t-1}$ ) to yield an assessment of \$8.66 per AUM (plus \$0.10 per AUM weed fee) for the 2015/2016 selected land block assessment.

### **Miscellaneous:**

The Agency has continued to monitor the formula's market sensitivity and performance over time, particularly in relation to grazing non-use or increased/decreased demand for state grazing leases. We continue to see only minor requests for cancellations, along with some non-use requests. All non-use requests submitted over the last year were driven by resource constraints due to fire and drought. This suggests that assessments continue to not be unbearably high.

The livestock industry is in its fourth consecutive year of abnormally high beef prices. The formula has demonstrated some reasonable sensitivity to these conditions. Last year the formula called for \$0.33 per AUM and \$0.58 per AUM increases in the fee adjustments for the standard and selected land block assessments, respectively. This year the formula calls for \$0.25 per AUM and \$0.44 per AUM increases in the fee adjustments for the standard and selected land block assessments, respectively. It is also important to note that the formula is subject to year-old private lease rates reported by NASS.

Last year the Board of Trustees' Surface/Water Rights Committee (comprised of Chair Dave Ure, Jim Lekas, and Scott Ruppe), directed the agency to update the NASS data used to derive the regression slope coefficient for the formula. The formula's fixed slope coefficient was established based on data available up to the time of its creation in 2009. It was assumed that by adding six additional years to the regression calculation, it would more accurately reflect the favorable marketing conditions that industry is presently experiencing. Surprisingly, the addition of six years to the regression calculation produced a minuscule difference in the fixed slope coefficient - it only changed from 1.01681 to 1.01787.

The Surface/Water Rights Committee has convened twice in recent months to review the merits of the recalculated formula and consider other options, given the continuation of favorable livestock prices that might suggest more aggressive adjustments to SITLA's assessments. The committee felt that the standard fee (which represents 92.3% of the agency's grazing permits and 78% of its AUMs) was generally adequate, but had concerns that the select land block fee was too conservative. It also considered the merits of assessing a surcharge above and beyond the fee established by the formula for select land blocks. In the end of its review, the consensus of the committee was to recommend board approval of the 2015 – 2016 season grazing assessments as presented in this memo.

**Proposed Grazing Fees for 2015-2016:**

R850-50-500, Grazing Fees and Annual Adjustments states: *An annual fee shall be charged for the grazing of all livestock on trust lands. The grazing fee shall be established by the board and shall be reviewed annually and adjusted if appropriate.* Therefore, based on information provided above, the Agency respectfully requests adoption of the grazing fees for 2015–2016 as follows:

- 1) Standard grazing assessment will be \$5.03 per AUM.
- 2) Selected land block grazing assessment will be \$8.76 per AUM.