STATE BOARD OF LAND COMMISSIONERS
December 5, 2017
Regular Agenda

SUBJECT

Grazing Rate Methodology

BACKGROUND

During the November 21, 2017, regular State Board of Land Commissioners (Land Board) meeting the Idaho Department of Lands (Department) presented the Grazing Subcommittee and Rate Methodology Review Update. This summation of information and analysis, conducted by the Grazing Subcommittee, Advisory Group and expert consultants, spanned a two-year process that included: 12 Subcommittee and Advisory Group meetings; development of methodology alternatives; an economic analysis and a final Land Board report presented by Dr. Dennis Becker, University of Idaho Policy Analysis Group; and a public review and comment period. The Land Board directive before the Grazing Subcommittee was to bring forward recommended alternatives for full Land Board consideration. As a result, during the November 21, 2017, regular meeting, the Grazing Subcommittee recommended two alternatives to be considered by the Land Board:

- Revised Status Quo – Price Index Approach; base fee between $2.00 - $2.58
- Calf-Crop Share – Contributory Share Approach; 13% state share

DISCUSSION

The two alternatives recommended by the Grazing Subcommittee at the November Land Board meeting are in alignment with the final report conclusion developed by Dr. Dennis Becker and include a Price Index approach with a range of base values and a Contributory Share approach. Attachment 1 is an exhibit that intends to establish a scaled range of values for the two alternatives brought forward by the Grazing Subcommittee and includes the Status Quo and the USDA National Agricultural Statistics Service (NASS) Idaho private lease rates as points of reference.

Public testimony was received during the November 21, 2017, regular Land Board meeting and the Board agreed to consider additional written testimony received by December 1, 2017. All additional public written testimonies received through December 1 were forwarded to Board members for review as they were received. All public comments and written testimony received between November 21 and December 1, 2017, are included within Attachment 2.

In addition to the Land Board receiving written testimony, the Land Board will provide an opportunity for short verbal testimony today, limited to three minutes per person, as per the meeting agenda that was released to the public last week.

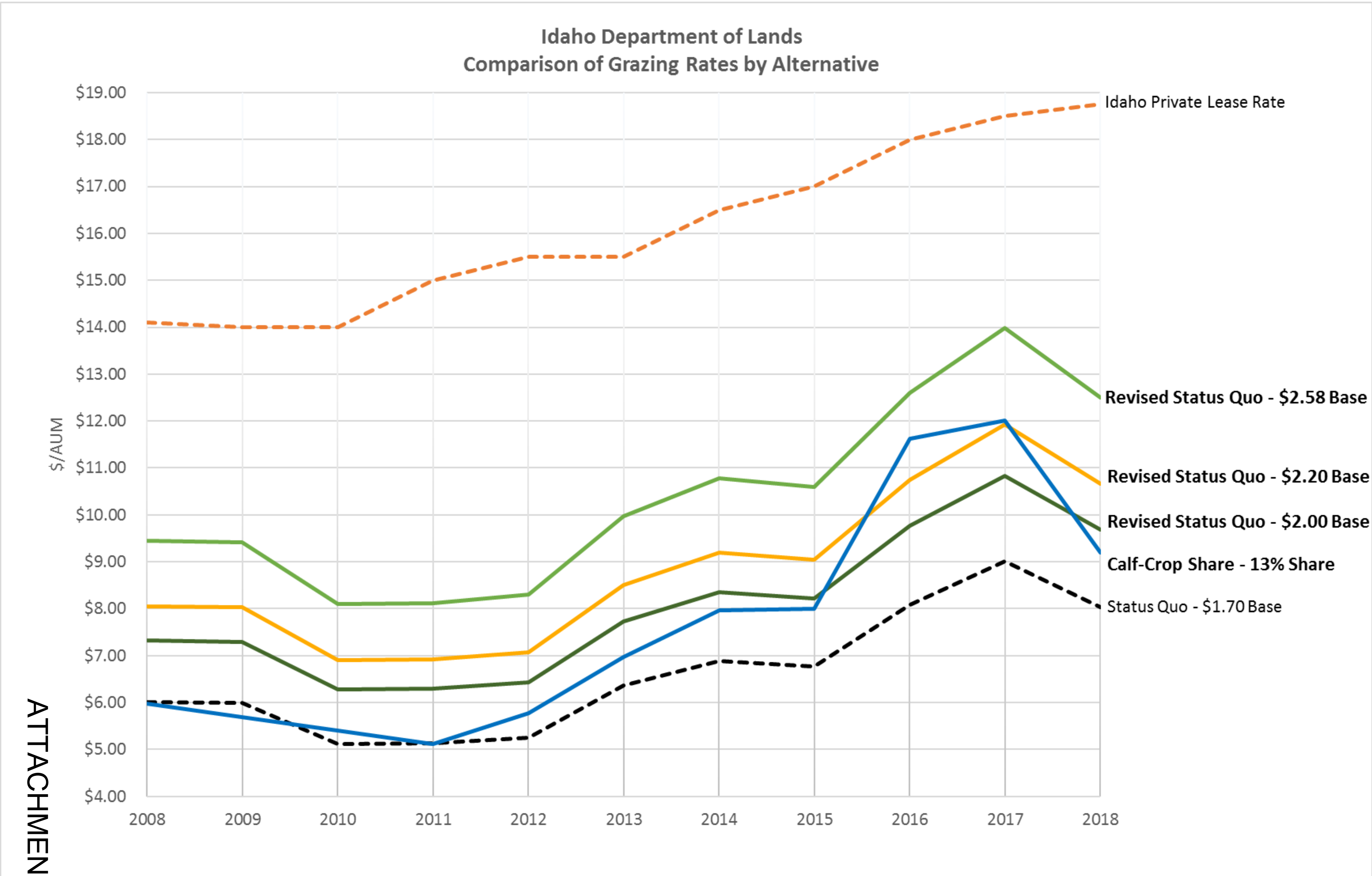
BOARD ACTION

A motion was made by Secretary of State Denney to defer a decision on this issue until the Board can appropriately consider the additional information received. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

For the record, the Board prescribed no time limit for its review.

ATTACHMENTS

1. Comparison of Grazing Rates
2. Public Testimony received November 21 through December 1, 2017



ATTACHMENT 1

CALCULATED GRAZING RATES

Year	Status Quo 1993 Index ($1.70)	Revised Status Quo 54% '16 IDPLLR ($2.00)	Rev Status Quo 1990 Index ($2.20)	Rev Status Quo 70% '16 IDPLLR ($2.58)	Cattlefax Calf-Crop Share 13% Share	USDA NASS Idaho Private Lease Rate	
2008	$6.01	$7.32	$8.06	$9.45	$5.97	$14.10	
2009	$5.99	$7.30	$8.03	$9.41	$5.69	$14.00	
2010	$5.12	$6.28	$6.91	$8.10	$5.40	$14.00	
2011	$5.13	$6.29	$6.92	$8.12	$5.12	$15.00	
2012	$5.25	$6.44	$7.08	$8.30	$5.77	$15.50	
2013	$6.36	$7.73	$8.50	$9.97	$6.97	$15.50	
2014	$6.89	$8.35	$9.19	$10.78	$7.97	$16.50	
2015	$6.77	$8.22	$9.04	$10.60	$8.00	$17.00	
2016	$8.09	$9.76	$10.74	$12.60	$11.62	$18.00	
2017	$9.01	$10.84	$11.92	$13.98	$12.02	$18.50	*Estimated
2018	**$8.03**	**$9.69**	**$10.66**	**$12.50**	**$9.19**	**$18.75**	*Estimated

Average rate (2008-2017)	**$6.60**	**$8.02**	**$8.82**	**$10.35**	**$7.61**
Gross revenu	**$1,717,181.82**	**$2,085,329.04**	**$2,293,861.95**	**$2,690,074.46**	**$1,979,032.28**

Notes:

Status quo - baseline scenario; no modification from original formula; uses $1.70 factor indexed to roughly equal $5.00/AUM in 1993; 2-year lag

Revised status quo ($2.00) - removes multicollinearity with $2.00 index (54% 2016 IDPLLR); 2-year lag

Revised status quo ($2.20) - removes multicollinearity with $2.20 index (1990 Land Board index); 2-year lag

Revised status quo ($2.58) - removes multicollinearity with $2.58 index (70% of 2016 IDPLLR); 2-year lag

Calf-Crop Share uses 550lb Steer ($/cwt) with 13% share rate; 2-year lag

From: webmaster@idaho.gov [mailto:webmaster@idaho.gov]
Sent: Tuesday, November 21, 2017 5:28 PM
To: Comments <comments@idl.idaho.gov>
Subject: IDL Comment

Name: Ott Clark

Contact Phone number: 2085699284

E-mail address: oclark@idahofb.org

Mailing address: 2645 Rose Rd

City: Blackfoot

State: ID

Records Request Description: My family has been ranching for generations and if you went to their home property you would not see new pickups, trailers, tractors or a new home. what you would find is a hard working family who works 80 hour weeks in the summer putting up hay and 60 hour weeks in the winter feeding, and calving out our cattle herd. They have worked hard every year to make every cent they own. please don't make it even harder on Idaho ranchers by raising their grazing fees. it may not seem like a lot but it might be the one fee that keeps a young rancher from going out of business or the last fee that drives a rancher into retirement. Please think about the hard working rancher and vote to keep grazing fees at there current position. Thank you.

2A

-----Original Message-----
From: JAMES HAGENBARTH [mailto:hagenbarthj@msn.com]
Sent: Tuesday, November 21, 2017 12:45 PM
To: Diane L. French <dfrench@idl.idaho.gov>
Subject: Additional testimony

State Land Board
November 21, 2017
Grazing Fee Methodology Hearing

To the State Land Board:

To better address the concerns of parties that oppose changes in the state grazing fee or methodology, in 2018 the Calf crop model is only $.85 more per AUM than the status quo with a 1.70 index. This is a small amount to pay for insurance of supporting a model that does not have as great a risk of being litigated. The status quo at 2.0 and at 2.50 are $.50 and $2.90 respectively, higher than the calf crop model. An increase of $.85/ AUM is not going to impact a viable operation that much.

Thanks for considering this additional testimony.

Jim Hagenbarth

Sent from my iPhone

From: webmaster@idaho.gov [mailto:webmaster@idaho.gov]
Sent: Wednesday, November 22, 2017 12:01 PM
To: Comments <comments@idl.idaho.gov>
Subject: IDL Comment

Name: Daniel Garner

Contact Phone number: 2082011796

E-mail address: lazygranch.animal@yahoo.com

Mailing address: 3579 north Westside hwy

City: Clifton

State: ID

Records Request Description: I feel the formula that has been used in the past to figure the grazing rates has served the state well,and I see no reason to mess with something that is working Thanks for your time.

From: Felix & Sheryl Nuxoll [mailto:fsnuxoll@gmail.com]
Sent: Monday, November 27, 2017 6:14 PM
To: Comments <comments@idl.idaho.gov>
Subject: state grazing fees

Please do not change the formula for the state grazing fees. This could cause many ranchers to sell their cattle and less money for the state. We need to help business, not make it more difficult, especially at a time when ranchers and farmers are having a hard time of making a living. Thanks.
Sheryl Nuxoll

From: Glenda Frei [mailto:glendafrei@gmail.com]
Sent: Monday, November 27, 2017 6:21 PM
To: Comments <comments@idl.idaho.gov>
Subject: Grazing fee Change

Do not change the present grazing fees on state land. Cattle are an important crop in Idaho.
An increase will hurt and decrease the industry here.

Ron and Glenda Frei
1187 Long Haul Rd
Grangeville, ID 83530

208-983-0482

From: Mike Frei [mailto:mike@harvestwest.com]
Sent: Monday, November 27, 2017 9:15 PM
To: Comments <comments@idl.idaho.gov>
Subject: Grazing fees

Please do not change the grazing fee rate.

--
Mike Frei
Managing Director
HarvestWest Investments
mike@harvestwest.com
208-507-1234

From:	Marjorie French
To:	Comments
Subject:	Grazing fees
Date:	Monday, November 27, 2017 11:50:06 AM

I recently read that again the raising of grazing fees is being considered. I think this could have many negative results. First and most important is what this will do to the ability of ranchers to find the resources to pay rising costs for grazing fees when the cattle markets are de pressed. Second the benefit to the state in the reduction and stoppage of wild fires already is a financial contribution from grazing. When ranchers can no longer afford the fees to graze cattle and reduce the fuel on the ground we will have more wild fires! Consider the value of fire suppression by grazing.

Ranchers are not able to pass this increased cost on to anyone. One large rancher in this area of Idaho will be forced to down size and possible sell off his herd because he will have no grazing pasture affordable. Please consider the negative impact increased fees will have on the cattlemen of Idaho.
Thank you for considering these thoughts.
Sent from my iPad

From: State of Idaho WebMaster
To: Comments
Subject: IDL Comment
Date: Monday, November 27, 2017 12:12:24 PM

Name: Holly Hancock

Contact Phone number: 2087457448

E-mail address: hwh7@juno.com

Mailing address: 3849 East 200 North

City: Rigby

State: ID

Records Request Description: Although I can appreciate the efforts put in over the past two years, I feel it important that any change in the fees be miniscule, if at all. Farm commodities are at a 40 year low, while necessary inputs and machinery continue to increase. Please help keep farming and ranching in Idaho a viable industry.

-----Original Message-----
From: Britney chandler [mailto:crazyclvstk@hotmail.com]
Sent: Tuesday, November 28, 2017 9:18 AM
To: Comments <comments@idl.idaho.gov>
Subject: State grazing formula

Idaho land board,

My name is Cody Chandler and I am rancher. I have State, BLM, Forest, and Private leases. I am writing in concern of the decision to raise our grazing fees. I believe in checks and balances so I can appreciate the review of the current formula. I don't feel the reason for raising feels is justified. Idaho is such a diverse state it is impossible to compare us to other states and just as hard to compare one part of Idaho with another. My cost at the current rate for the state grazing is already higher than my private leases when you add our management cost. This year was worse than normal due to the heavy snow last winter. My cost for labor on fence repair was more than I payed the state. That didn't include material cost. On my private leases the land owner covers the cost of fencing as well as many other expenses. In 1993 one steel post cost around $1. Today $4.50. Diesel in 93 was under $1. Today $3-$4 a gallon. I have to spray weeds on state land not on private leases. Spray cost has almost tripled since 93. Property taxes have also increased on private leases. There are more costs that private land owners have that the state does not. The thought that we need state leases to be closer to the cost of private is so far off base.

I understand the charge of the land board is to manage the land in a way that will make the endowment as much money as possible. Don't forget that you also have a charge to take care of the land. Our profit margins as ranchers are already very tight. The management of the state land is our highest expense and if it comes to it that is where we will be forced to cut our cost, if our fees go up. Only 2% of the income from state land comes from grazing fees. Over 1,100 permit holders will be damaged by this cost increase. These are over 1,100 businesses in Idaho. As elected officials I would ask you what is more important for the success of Idaho. A part of a percent increase to the endowment or the success of hundred's of Idaho family businesses.

Thanks,

Cody R. Chandler

Sent from my iPad

From: Zak Miller [mailto:circlezak@gmail.com]
Sent: Tuesday, November 28, 2017 9:46 AM
To: Comments <comments@idl.idaho.gov>
Subject: State Land Board Grazing Comments

Zak Miller
3782 E Terrace Hills Ln
Rigby ID 83442
208-390-4636
circlezak@gmail.com
11-27-17

State Land Board

Dear State Land Board:

I currently graze cattle on State lands, BLM, Forest, and Private lands, as such I feel very qualified to express my feelings regarding the current and future grazing rates on State Lands.

As I evaluate the viability of my operation as I work with each type of landowner listed above there are pros and cons with each, the lands that create the most uncertainty for me are private. Due to the high rates, it can be very difficult to be profitable under such aggressive rates and as such private lands would be the first I would evacuate despite the challenges and uncertainties that federal lands impose.

I am concerned that if the state grazing fees increase with a new formula that I would be forced to re-evaluate the viability of my state leases. All my state grazing leases are on land I would deem to be equal to or less than the quality of my BLM leases which rate is much lower.

I appreciate the mandate of state lands to return value to the state and currently feel the rates are reasonable. I feel strongly that a new formula regardless of how well it is deemed to be created appear to bring only uncertainty and higher rates. This will not be beneficial to the long-term viability of state lands as it could most probably cause misuse of the grazing lands and long term could create more abandonments of leases and more costly management.

I strongly recommend that the State Board maintain the current grazing rates

In conclusion, I think ***Primum non nocere*** should be honored as lease owners and the state both need to be profitable.

Sincerely,

Zak Miller

From: Jon Marvel [mailto:jhmarvel@westernwatersheds.org]
Sent: Wednesday, November 29, 2017 3:09 PM
To: Becker, Dennis (drbecker@uidaho.edu) <drbecker@uidaho.edu>
Cc: Cook, Philip (pcook@uidaho.edu) <pcook@uidaho.edu>; Attorney-General Wasden <lawrence.wasden@ag.idaho.gov>; Tom Schultz <tschultz@idl.idaho.gov>; Darrell Early <darrell.early@ag.idaho.gov>
Subject: November 13, 2017 PAG Grazing Fee Study Review

Dennis,

I have just reread the Policy Analysis Group's November 13, 2017 ***Evaluation of Final Alternatives for Deriving Fair Market Grazing Value on Idaho State Endowment Trust Lands***, and I have a question about the PAG's comments on competitive auctions for grazing leases.

Specifically on pages 13-16 of that document, the Evaluation speculates on why competing applications for expiring grazing leases are not that common. The speculative reasons PAG provides include lack of management access and range condition. The report concludes there probably are other reasons why there are not more competing applications for expiring grazing leases.

May I suggest that a very big reason for a lack of competing applications for grazing leases is that the Idaho Department of Lands provides for improvement crediting to grazing leaseholders for fences, water supply systems, cattle guards and other ranching paraphernalia that is installed on State endowment land grazing leaseholds. If they were to prevail in an auction for a grazing lease, all successful competing applicants must reimburse existing leaseholders for the full current value of those installations. In some cases this amounts to over $100,000 dollars of extra cost that a competitor would need to factor into any bid.

If the Department of Lands had a policy that such installations on Endowment lands became the property of the Department and not inure to the benefit of existing leaseholders, there would be many more competitive grazing lease applications. Such a condition is routine in commercial property leases when physical improvements to properties are made by leaseholders.

Giving creditable improvements to existing leaseholders who then must be reimbursed by successful competitors is a not very subtle way to reinforce a strong bias in favor of current leaseholders and to disincentivize competition. Preventing competition in this way is not in the interest of the beneficiaries of the land trusts.

Jon

From: Dave & Cathy Veselka [mailto:drveselka@yahoo.com]
Sent: Wednesday, November 29, 2017 8:47 PM
To: Comments <comments@idl.idaho.gov>
Subject: grazing fee changes

Dear Sirs, As ranchers we rent a lot of pasture from the private sector. Many of these owners are only there for the hunting or the land inflation. most of them have no knowledge or background in the industry. Like it or not you do set some precedence. Often they try to equate their own circumstance with yours with is like comparing apples and oranges. I don't think your "new formulas" are going to benefit the economy or the industry. Thank You, Dave Veselka Indian Valley

From: Early, Darrell [mailto:darrell.early@ag.idaho.gov]
Sent: Wednesday, November 29, 2017 10:22 AM
To: Diane L. French <dfrench@idl.idaho.gov>
Cc: Graf, Scott <scott.graf@ag.idaho.gov>
Subject: Comment received by AG' s office on Grazing;

Diane – the OAG received these comments directly. It should be included in the material distributed to the LB staff. Thanks

This is a message to Attorney General Wasden sent from the OAG website.

Constituent Name: Mr. and Mrs. Cody and Britney Chandler
E-Mail Address: crazyclvstk@hotmail.com
Telephone Number: 208-740-9081
Mailing Address: 1151 devils elbow rd.
City/State/Zip: Weiser, ID 83672

Topic: State grazing formula

Message: I am writing to voice my disappointment with the attorney general office. I am a fifth generation rancher in Weiser. My family has been involved in our community as long as I know. I was informed this spring by my Idaho lands range specialist that because of the two year lag my grazing fees would be coming down next year. She apologized because she knows prices are down almost half from what they were two years ago. Then during the summer wile we are working our hearts out to keep up I get a letter stating that the state is reviewing the grazing formula. I like every other permit holder I talked to thought nothing about it because we had been told fees would be coming down. Latter I found out this review started back in 2015. This left very little time to do any thing about spreading the word. I testified at the last hearing and voiced my concerns. I was one of the over 1,200 letters that went to the sub-committee in favor of leaving the formula the same. 6 in favor of an alternative.

This is a message to Attorney General Wasden sent from the OAG website.

Constituent Name: Mr. and Mrs. Cody and Britney Chandler
E-Mail Address: crazyclvstk@hotmail.com
Telephone Number: 208-740-9081
Mailing Address: 1151 devils elbow rd.
City/State/Zip: Weiser , ID 83672

Topic: Defending the Grazing formula

Message: I have been told by the Idaho land department as well as members of the land bound that the Attorney General could not defend the current formula. Also it was your office that brought this issue to the table. Grazing s only 2% of the endowment income. And the formula has been working. We payed $3 more per aum than in 1993. Raising grazing fees will only raise income a small percent as a whole. Over 1,100 permit holders will be damaged. These are Idaho businesses. Comparing fees to private leases is not realistic. The state has none of the same management costs. Including property taxes. If your office can't figure out a way to defend over 1,100 Idaho businesses and help us stay profitable than we have some bigger problems to look at. If you have any further questions please contact me. 208-740-9081

Thanks for your time,
Cody R. Chandler

Darrell G. Early
Deputy Attorney General
Chief, Natural Resources Division
Office of the Idaho Attorney General
700 W. State Street, 2nd Fl.
P.O. Box 83720-0010
Boise, Idaho 83720
Darrell.early@ag.idaho.gov
(208) 334-4126

From: Tracy Lakey [mailto:dtlakey654@gmail.com]
Sent: Friday, December 01, 2017 2:16 PM
To: Comments <comments@idl.idaho.gov>
Subject: grazing rate comment

Dear Commissioners;

We, as the Caribou County Farm Bureau Federation board, would like to comment on the grazing fees for state lands.

We would like the record to show that we are satisfied with the current fees placed on grazing on state lands and ask that the grazing lease rates remain synonymous to the previous established rates.

Thank you for the opportunity to comment,

Caribou County Farm Bureau Federation
Tracy Lakey, secretary

From: Seth Grigg [mailto:sgrigg@idcounties.org]
Sent: Friday, December 01, 2017 3:02 PM
To: Comments <comments@idl.idaho.gov>
Subject: IAC Comments Regarding Grazing Fees

Hello,

Please find attached a letter from the Idaho Association of Counties regarding potential changes to grazing fees on state lands.

Respectfully,

Seth

--

Seth Grigg

Executive Director

208.345.9126 | 208.345.0379 Fax

dchadwick@idcounties.org | www.idcounties.org

IDAHO ASSOCIATION OF COUNTIES

WWW.IDCOUNTIES.ORG

3100 S. VISTA AVE., STE. 200
BOISE, ID 83705
208.345.9126

December 1, 2017

Idaho Land Board
300 N. 6TH Street, Suite 103
Boise, ID 83702

Honorable Members of the Idaho Land Board,

The Idaho Association of Counties (IAC) is a nonpartisan, nonprofit, member service organization incorporated by Idaho counties to promote county interests, advocate for good public policy, and provide education and training for Idaho county officials. IAC appreciates the opportunity to provide comments to the Idaho Land Board regarding proposed changes to grazing fees on state managed lands.

For many counties with economies that are dependent on public lands, grazing is a traditional activity that ensures local community stability. With the loss of natural resource based jobs, many rural counties have experienced loss of population, tax base, and workforce. Changes to grazing fees on state land are likely to impact these rural counties the most.

Charging fees for grazing private livestock on public lands is a long-standing, but contentions practice. Generally livestock producers who use public lands want to keep fees low, while conservation groups and others believe fees should be raised to approximate "fair market value." Changes in grazing fees can have the effect of altering traditional grazing plans and, in some cases, push marginal operations out of business.

The Idaho Association of Counties encourages the Idaho Land Board to establish fees that are fair, equitable, and promote economic stability in rural Idaho.

Respectfully,

Seth Grigg
Executive Director

From: Helmick, Darcy [mailto:darcy.helmick@simplot.com]
Sent: Friday, December 01, 2017 3:16 PM
To: Comments <comments@idl.idaho.gov>
Cc: Basabe, Thomas <Tom.Basabe@simplot.com>
Subject: IDL Grazing rate comments

Director Schultz,
Please consider the attached comments on the two options for the IDL grazing rate.
Thank you,

Darcy Helmick
Land Manager
Simplot Land & Livestock
(208) 834-5152 office
(208) 761-9378 cell

Simplot

Land & Livestock, 1301 Hwy 67, Grand View, Idaho 83624 BUS 208 834-2231 FAX 208 834-2075

Director Tom Schultz
Idaho Department of Lands
300 N 6th Street, Suite 103
PO Box 83720
Boise, ID 83720

December 1, 2017

Sent electronically to: comments@idl.idaho.gov

Dear Director Schultz,

Thank you for the opportunity to provide additional comments on the Grazing Lease Rate Formula Review, specific to the Revised Status Quo (with a base between \$2.00 and \$2.58) and the Calf Crop Share Model (with a 13% share).We appreciate and understand the needs of Idaho Department of Lands (IDL) to manage state endowment trust land to meet the Constitutional mandate to maximize long-term financial returns to the State of Idaho. We sincerely believe revenue from livestock grazing has been and will continue to be a necessary component in that long-term mission. It is critical that any formula selected be *defensible*, *implementable*, and *predictable* to ensure continuation of utilizing livestock as a component of State Land management. We continue to maintain that the existing rate is the best way to accomplish that. Since that formula appears to be off the table, based on the two provided methodologies, we prefer the modified status quo. We can support a \$2.00 index, but nothing above that mark and certainly nota range. We strongly oppose an open-ended range in the index as proposed. Leaving an open-ended range, with no justification for the figures within that range, will only serve to bring great uncertainty not only to our industry, but to the state endowments as well. Still, this option is most similar to the existing formula, and given a set rate could be implementable and predictable.

A significant concern with the calf crop model is the justification of the 13% calf crop share. Agreement on what that share should be and how to accurately formulate that may not ever be successfully agreed upon in industry.

We again state our preference to stay with the status quo until additional supporting documentation are provided to make either the revised status quo or the calf crop model more defensible.

Simplot is also a member of Idaho Cattle Association and support any comments submitted by the ICA.

We appreciate the diligence that the Subcommittee has practiced through this process to fully assess and understand the obstacles in creating an equitable, defensible formula. We are hopeful that the Land Board will continue on this track while moving forward.

Thank you,

Darcy Helmick

Darcy Helmick
Land Manger – Simplot Livestock Company

Cc: Tom Basabe – President, Simplot Livestock Company

From: Karen Williams [mailto:karen@idahocattle.org]
Sent: Friday, December 01, 2017 3:45 PM
To: Comments <comments@idl.idaho.gov>
Subject: ICA comments on grazing rate proposals

Thank you for the opportunity to provide additional comment on the IDL grazing rate proposals.

Karen M. Williams
Policy Director
Idaho Cattle Association
Phone: 208-866-6438
Email: karen@idahocattle.org

December 1, 2017

Idaho Department of Lands
300 N. 6th Street, Suite 103
Boise, ID 83702
Submitted via email to: comments@idl.idaho.gov

To Whom It May Concern:

Thank you for providing additional opportunity to comment on the Idaho Land Board's Grazing Rate Subcommittee's final proposed grazing rate alternatives. We appreciate the measures that the Land Board Grazing Rate Subcommittee has undertaken in reviewing the state land grazing rate formula. From the initiation of this process, ICA has been committed to this process and acted in good faith to help discover the best way to produce an equitable grating rate on state lands in Idaho.

Up to this point, it has remained our position to support the status quo while reviewing the alternatives proposed. Given that we have been left with two options, our board of directors undertook careful deliberation of the two rate methodologies proposed by the Subcommittee. After much discussion, ICA has concluded that, of the two, our preferred formula is the Revised Status Quo with a $2.00 index. The Revised Status Quo capitalizes on a successful track record of the current formula and a familiarity that lessees have with it.

However, ICA strongly opposes an open-ended range in the index as proposed. Our position is clear that we can support the $2.00 index, but nothing above that mark and certainly not a range. Leaving an open-ended range, with no justification for the figures within that range, will only serve to bring great uncertainty to our industry which already suffers from a volatile marketplace. Further, our concern is that the issue of formula ambiguity, which precipitated this whole process, has not been resolved with this proposal. It remains unclear where the $2.00 figure is derived from and what it represents.

ICA has supported the rationale and simplicity behind the calf crop model, however a significant concern with the model is the justification of the 13% calf crop share. Agreement on what that share should be and how to accurately formulate that may not ever be successfully agreed upon in the industry. Notes produced to the record by advisory committee participants illustrate a share closer to 10% utilizing university enterprise budgets. Adjusting the share from a row crop share easily creates a 10% - 13% share based on land types and growing seasons.

We appreciate the diligence that the Subcommittee has practiced through this process to fully assess and understand the obstacles in creating an equitable formula. We are hopeful that the Land Board will continue on with this track record while selecting a formula moving forward.

Sincerely,

Tucker Shaw

Tucker Shaw, President
Idaho Cattle Association

From: Erik Molvar [mailto:emolvar@westernwatersheds.org]
Sent: Friday, December 01, 2017 4:27 PM
To: Comments <comments@idl.idaho.gov>
Cc: Scott Lake <scott@westernwatersheds.org>
Subject: Comments of Western Watersheds Project on IDoL state grazing fees

Dear Ms. French,

Attached for the State Land Board's consideration are the comments of Western Watersheds Project on appropriate grazing fee levels.

We urge the Land Board to consider these comments, and the attached analyses, in detail before rendering a decision on grazing fees for state lands.

Respectfully yours,

Erik Molvar
Executive Director
Western Watersheds Project
319 South 6th Street
Laramie WY 82070
(307) 399-7910
. . .
P.O. Box 1770
Hailey, ID 83333

Western Watersheds Project
PO Box 1770
Hailey, ID 83333
tel: (208) 788-2290
fax: (208) 475-4702
email: wwp@westernwatersheds.org
web site: www.westernwatersheds.org

Working to protect and restore Western Watersheds and Wildlife

December 1, 2017

Diane French
Idaho Department of Lands
300 N. 6th Street
Suite 103
Boise, ID 83702

Via email to comments@idl.idaho.gov

Comments on behalf of WWP on Idaho state land grazing fees

Dear Ms. French:

The following are the comments of Western Watersheds Project on grazing fees charged by the State of Idaho on state lands. We are concerned that none of the alternatives currently under consideration meet the constitutional mandate to "secure a maximum long term financial return" for state schools, and also do not appear to meet the mandate to secure a "market rate" for state land grazing fees per the business plan for grazing leases.

The State of Idaho should also be considering in detail the alternative proposed by Dr. Tom Power, a PhD economist from Montana with expertise on livestock grazing fee structures, for the State of Idaho's consideration in setting grazing fees for state Trust Land sections. It does not appear that this report was fully considered and evaluated in detail by the subcommittee before it forwarded its recommendations to the Land Board. We are attaching this report again so that it can be fully evaluated by the entire Land Board.

At Western Watersheds Project, we believe that livestock grazing is not the highest or best use of state lands, and in many cases livestock grazing is not a land use that will bring the highest Return on Asset to the state trust fund and the citizens that it serves. But in cases where the State chooses to lease Trust section for livestock grazing, it should do so under a fair market rate that provides a maximum Return on Asset for the citizens of Idaho, in accord with constitutional requirements.

According to a 2016 Congressional Research service report (attached), private grazing fees averaged $22.60 per head as of 2016. USDA statistics list an average grazing fee on

Idaho private lands at $18.00.[1] Based on the University of Idaho analysis, all 4 alternatives analyzed yielded far less than the market rate for private lands grazing leases, and none depart significantly from the status quo.

Per Dr. Power's recommendations, we urge the State to set grazing fees at 84% of private lease rates in order to achieve fair market value and maximum Return on Asset, as outlined in the attached report. While Dr. Power recommends a 10-year phase-in of fee hikes to achieve such an increase to fair market rates, WWP believes that the State's legal obligations constrain the State to implementing fair-market rates immediately, rather than over a 10-year span.

We also would encourage the Idaho Department of Lands to directly solicit comments on the grazing fee from the Idaho Department of Education, local school districts, teachers, and students. A cursory review of the comments received indicates that none of these recipients and beneficiaries of the state grazing fees has provided input to the process, and it would seem that such input should weigh considerably in this process.

Thank you for your consideration, and please keep us apprised regarding future actions involving State of Idaho livestock grazing fees.

Respectfully yours,

Erik Molvar

Attachments:

1. Analysis and recommendations of Dr. Thomas Power, PhD on the economics of the Idaho state grazing fee.
2. GAO Report on federal grazing fees, including corresponding private lease grazing fees.

[1] *See* https://www.nass.usda.gov/Charts_and_Maps/Grazing_Fees/gf_am.php

Comments on the Idaho Department of Lands 2017 Grazing Rate Methodology Review

Submitted by

Western Watersheds Project

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Prepared for

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by

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About the Authors:

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Comments on the Idaho Department of Lands
2017 Grazing Rate Methodology Review

Executive Summary

Since September 2015, the Idaho State Board of Land Commissioners (Land Board) and the Idaho Department of Lands (IDL) have been reviewing the way they set grazing fees for ranchers who lease Idaho State Endowment Trust Lands (Trust Lands) for livestock forage. In late June 2017, IDL released a “Grazing Rate Methodology Review” that listed and briefly described five alternative approaches to annually setting Trust Lands grazing fees. At the same time, IDL announced a 60-day public comment period ending September 1, 2017, to receive comments on those five alternative approaches to setting Trust Lands grazing fees.

These comments are offered in response to that invitation.

The analysis in the main body of these comments support the following conclusions about the alternative approaches to setting Idaho Trust Lands grazing fees that the IDL has laid out for public review and comment.

- In general, none of the alternative ways of calculating Idaho Trust Lands grazing fees that the Land Board has offered for public comment will lead to grazing fees that reflect the fair market value of the forage on those lands or provide the target rate of return on asset value. In that sense, it appears that most of those methods are not literally consistent with the Idaho constitutional mandate that the Trust Lands be managed “…in such a manner as will secure the maximum long term financial return…”

- There is no conceptual or empirical reason that Trust Lands grazing fees cannot be set at fair market value if the Land Board believes, as its criteria for evaluating alternative methods of setting Trust Lands grazing fees suggest, that fair market value or fair market return on assets is the proper target in setting those grazing fees. We **know** how to estimate the fair market value of Trust Lands forage. The University of Idaho Policy Analysis Group has repeatedly done that for the Land Board in order to demonstrate how close or how far away various proposed Trust Lands grazing fees are from the fair market value target. In addition, those fair market values provide an annual estimate of the value of Trust Lands grazing. As the PAG has pointed out: “…this provides a fair approach to setting grazing rates, as it removes potentially arbitrary adjustment factors used in other formulas, and closely indexes the price paid to private lease rates.” [1]

- Under most of the alternative approaches to estimating Trust Lands grazing fees, the historic base value of the Idaho per AUM grazing fee that is then projected forward using indices of various relevant economic factors needs to be regularly re-estimated and then re-indexed to provide estimates for future years. The current base value has not been changed since 1993 nor were the index values reset when it was adopted. As a result, there is little

[1] Dennis Becker, Policy Analysis Group, University of Idaho, “Alternative #6 Addendum – Grazing Rate Review Analysis, February 26, 2017. p. 5.

reason to trust the current formula and its logic is anything but transparent. Any new formula should be periodically be reset with a current per AUM base grazing fee in contemporary dollars and the indices reset to trend that grazing fee forward.

- The formulae used to estimate the Trust Lands grazing fees should not combine data associated with livestock markets and production with data reflecting private grazing land fees as the current formula does. Doing so creates statistical problems that make the estimated Trust Lands grazing fees inaccurate and misleading. Dependable fair market Trust Lands forage values will not be derived from such approaches.

- In addition, a major simplification of the current Trust Lands grazing fee formula could provide the most defensible Trust Lands grazing fee formula. Private land grazing fees are highly correlated with each other from one year to the next providing a relatively stable index for predicting future private grazing fees. In addition, private grazing lands fees represent valuable market information as to what Idaho livestock forage is worth. Adjusted for differences in owner-provided services, these private grazing land fees can determine a fair market grazing fee for Trust Lands.

- The five criteria by which the Land Board has asked the proposed formulae for determining Trust Lands grazing fees be evaluated are not consistent with each other. For instance, the fifth criterion is that the "formula is fair, predictable and certain for both parties."[2] Unfortunately agricultural markets are not "fair, predictable and certain." Instead they are notoriously volatile in ways difficult to predict and impersonal in their impact on ranchers. This puts that criteria in conflict with the second criteria: "The formula is a defensible process driven by market data."[3] If, for instance the market information that is used are the price of beef and the costs of raising beef, the resulting Trust Lands grazing fees are likely to swing substantially from year to year. This is not as likely to be the case if the Trust Lands grazing fees are tied to Idaho private grazing land fees.

- The University of Idaho Policy Analysis Group has demonstrated that the Montana Model can be applied to Idaho to determine empirically-based fair market grazing fees for Idaho Trust Lands. That formula involves only the Idaho private lands grazing fees and an estimate in the differential value of land-owner-supplied services. That approach estimates a fair market Trust Lands forage rate each year. As a result, a past "base value" does not get out-of-date. This approach also provides relatively steady values for Trust Lands grazing fees from year-to-year. It is also based on easily understood data.

- The IDL's presentation of the Montana Model in its request of comments deviated significantly from the University of Idaho Policy Analysis Group's presentation. It is difficult to reconcile the two presentations. The IDL's version of the impact of the Montana Model should not be used until it is explained, modified if necessary, and re-presented to the public for comment. The University of Idaho Policy Analysis Group's presentation of the Montana Model *can* be used for the comparative analysis.

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[2] Op. cit. University of Idaho Policy Analysis Group, "Grazing Rate Review Analysis, January 20, 2017, p. 2.
[3] Ibid.

- Recent empirical analysis of private and Trust Lands grazing fees in Idaho indicates that private land grazing fees can be converted to fair market grazing fees for Idaho Trust Lands by reducing the private grazing fees by 12 to 14 percent. This is a much smaller discount for services not provided to grazers than earlier studies suggested was appropriate. Similar analysis in Montana determined that the differences in services provided to ranchers on private compared to trust grazing lands, justified a 22 percent reduction from private grazing fees to obtain fair market forage value for trust lands.

- Other recent empirical analysis in Idaho has surveyed those owning and leasing private grazing lands for livestock production. The analysis of that data allowed the estimation of the determinants of Idaho private lands grazing fees. Those estimated Idaho private grazing fees were not statistically different from the annual estimates provided by the federal National Agricultural Statistics Service (NASS) estimates. That provides some confidence in the reliability of using that federal data on Idaho private grazing fees to set Trust Lands grazing fees. These types of empirical studies of private grazing practices in Idaho can also allow the periodic adjustment of estimated fair market Trust Land grazing fees.

- Projected increases in the sales value of Idaho Trust Lands should not be included in estimates of the return associated with grazing leases on those lands. Ranchers lease the forage on those lands. They do not rent or buy all of the property values associated with those lands.

- Projected increases in the sales value of Idaho Trust Lands also should not be included in calculating the “total return on assets” associated with grazing Trust Lands. There are political and legal limits to the sale of those Trust Lands and there is no imminent policy change that is likely to allow the sale of substantial parts of the Trust Lands. For that reason, the conversion of such theoretical land appreciation values into a cash flow is not a reasonably foreseeable outcome that should be included in state financial statements.

- The Idaho Land Board in early 2017 asked the University of Idaho Policy Analysis Group to analyze an approach to setting Public Lands grazing fees that was used in Montana for its trust lands. The Policy Analysis Group delivered the results of its study of that approach to the IDL in February 2017. Later in the year, the Idaho Land Board decided to include the Montana Model as one of the five alternatives on which the Land Board sought public comment.

    - The Policy Analysis Group analysis of the Montana Model concluded that it could be used to set the fair market value of Trust Lands grazing fees. That would assure that Idaho’s target return on asset value would be achieved. It would also be consistent with the Idaho constitutional mandate that Trust Lands be managed for the “maximum long term financial return.”

    - If the recent estimate that the lower level of services to grazers on Trust Lands reduces the value of Trust Lands leases by 12 to 14 percent is used in the Montana Model, the 2016 Idaho average private grazing fee of $17.34 per AUM would indicate that the fair market grazing fee for Trust Lands should be $14.91 per AUM. The actual Trust Land grazing fee in 2016 was $8.09 per AUM, only 54 percent of that estimated fair market value. In 2016, the Trust Land grazing would have to almost double to reach the estimated fair market value.

- Because of the size of the gap between current Trust Lands grazing fees and the fair market value of that grazing, it would take an 84 percent increase in the Trust Lands grazing fee to reach the fair market level. For that reason, it may be appropriate to move towards full fair market value over a ten-year period. During the first five years the Trust Lands grazing fees could move to 70 percent of the Idaho private grazing fees. In the following five years, the Trust Lands grazing fees could move to 86 percent of the private grazing fee level, the current fair market value for the Trust Lands grazing. During that ten-year period, the IDL could continue to analyze private grazing fees in Idaho and the differential value of the services provided by the state and private grazing land owners. That would allow the Land Board to check its progress in moving Trust Land grazing fees to reflect the fair market value of Trust Land forage.

Comments on the Idaho Department of Lands 2017 Grazing Rate Methodology Review

1. Introduction

Since September 2015, the Idaho State Board of Land Commissioners (Land Board) and the Idaho Department of Lands (IDL) have been reviewing the way they set grazing fees for ranchers who lease Idaho State Endowment Trust Lands (Trust Lands) for livestock forage. In late June 2017, IDL released a “Grazing Rate Methodology Review” that listed and briefly described five alternative approaches to annually setting Trust Lands grazing fees. At the same time, IDL announced a 60-day public comment period ending September 1, 2017, to receive comments on those five alternative approaches to setting Trust Lands grazing fees.

These comments are offered in response to that invitation.

By way of introduction, I am an economist who has been a Professor in the Economics Department at the University of Montana for almost 50 years. For thirty of those years, I was Chair of the Economics Department. I retired from teaching and university administration ten years ago but remain a Research Professor and Professor Emeritus. I am also the Principal Economist in Power Consulting Incorporated, Missoula, Montana. It is in the latter capacity that I have prepared the following comments on appropriate Idaho Trust Lands grazing fees.

Over the last several decades I have researched and published on issues associated with livestock grazing in the western United States as well as on many other natural resource issues in the Western states. A brief summary of my qualifications and experience is attached at the end of these comments.

I was asked to prepare these comment by the Western Watersheds Project, but the analysis, conclusions, and opinions expressed in these comments are entirely my own.

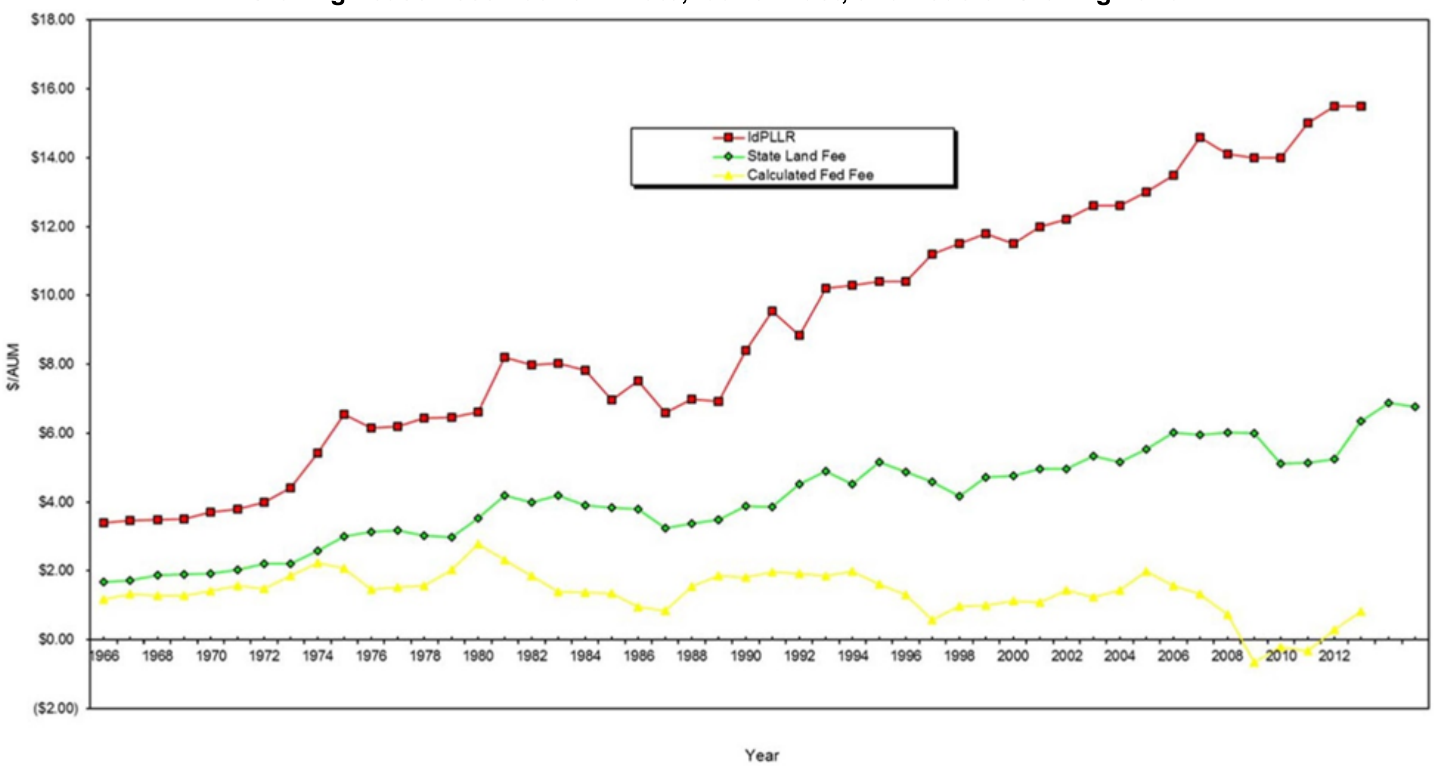
2. Idaho Trust Land Grazing Fees Compared to Private Grazing Fees and Those of Other Western States

Most of the Western states when they were admitted to the Union were given relatively large quantities of federal land to support their schools and other public services. Although some states sold off their federal trust lands and used the proceeds to support government institutions and programs, many Western states, like Idaho, still have substantial state-owned lands held in trust for schools or other state general fund activities. Many of those lands are also rangelands whose primary commercial use is providing forage for the raising of livestock. Those Western states also have to wrestle with how to establish a fair market grazing lease fees private ranch use of these state trust lands.

A comparison of Idaho's Trust Land grazing fees with private Idaho grazing fees and a comparison with those of other states provides some context in which to evaluate Idaho's success in establishing fair market forage values when leasing its grazing Trust Lands to ranchers.

Grazing fees for forage on private lands in Idaho (black squares in Figure 1) have been substantially above the per AUM fees charged by the IDL to graze on Trust Land (green diamonds in Figure 1) since at least 1966. The per AUM gap between the private Idaho grazing fee and the fee charged for forage on Idaho Trust lands has increased significantly over time in dollar terms with the gap in nominal dollars growing from about $2.15 in 1966 to $10.25 in 2015. The Idaho Trust Lands grazing fee expressed as a percent of the private AUM lease rate shows that the Trust Land rate declined from about 47 percent of the Idaho private land grazing fee in 1966 to about 40 percent of the private rate 2015.[4] See Figure 1 below.

Figure 1.
Grazing Lease Fees: Idaho Private, Idaho Trust, and Federal Grazing Land



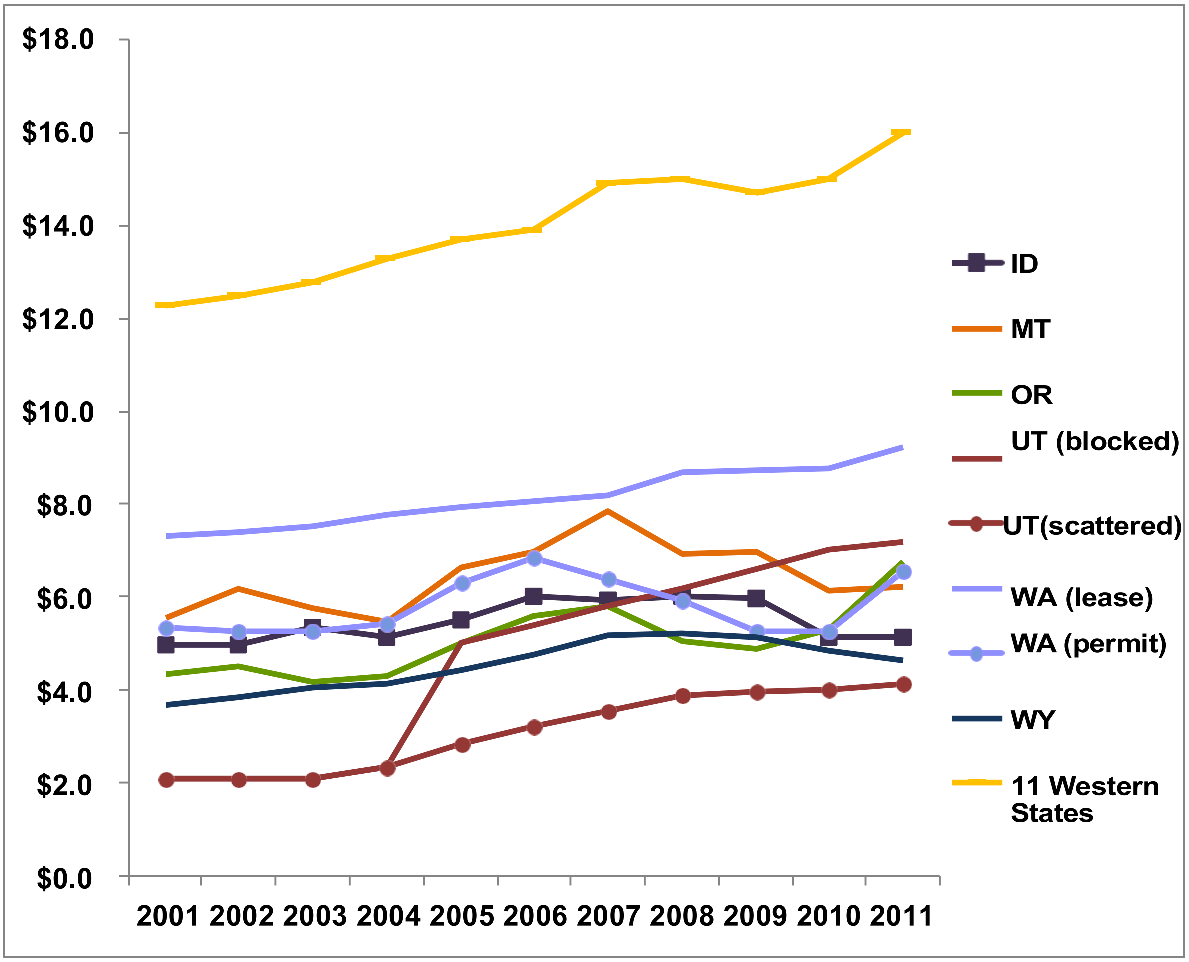
Source: Idaho State Land Grazing Lease Rates: Historical Background, Dr. Neil Rimbey, University of Idaho, Extension Range Economist, 2014, p. 7.

Also shown in Figure 1 is the Federal grazing fee (yellow triangles) that would result from the application of the Federal formula that is similar to that adopted by the Idaho Land Board. What is shown is the grazing fee that would have resulted if certain limits placed on the grazing fee actually adopted were ignored. So, Figure 1 does not show the actual federal grazing fees adopted, just the fee that the formula would have generated. One of those limits is that the

[4] Estimates approximated from the points in the figure.

Federal grazing fee cannot fall below $1.35 per AUM. That would rule out the *negative* grazing fees shown in Figure 1 for 2008-2012. Another limit is that any increase or decrease cannot exceed 25 percent of the previous year's grazing fee. That limit would smooth out some of the volatility in the Federal formula results shown in Figure 1.[5]

Figure 2
State Program Grazing Fee Trends, Dollars per AUM, 2001 - 2011



Source: Idaho Department of Lands Grazing Market Rent Study, August 2012, Figure 4.1, p. 65. The "11 Western States include AZ, CA, CO, ID, MT, NM, NV, OR, UT, WA, and WY. The individual states shown had the lowest grazing fees. Their individual grazing fees are contrasted with the average fees across all 11 Western States.

As will be discussed below, although the grazing fees paid by Idaho ranchers to graze their livestock on privately owned lands provides important, market-based, information on the value of forage in Idaho, one cannot simply assume that Idaho Trust Lands should be leased at rates exactly equal to those private grazing fees. There may be different costs associated with using private grazing lands as opposed to Idaho Trust Lands and there may be differences in the

[5] BLM and Forest Service Announcer 2017 Grazing Fee. https://www.blm.gov/press-release/blm-and-forest-service-announce-2017-grazing-fee

quality of forage. If such differences exist, they need to be empirically quantified in order to use private grazing fees to inform decisions as to the fair market value of the forage on Idaho Trust Lands.

The IDL commissioned a study of "trends in the private grazing land lease markets…in Idaho…to aid the Idaho Department of Lands in making decisions on how best to manage the state's Endowment Trust Lands for its beneficiaries." [6] In addition to the analysis of Idaho private grazing land leases, that study also compared Idaho's Trust Land Grazing fees to those of other Western states between 2001 and 2011. That comparison showed that Idaho Trust Lands grazing fees were both among the lowest in the Western states and also showed by far the lowest annual rates of increase.

Figure 2 above shows the level of state trust land grazing fees for Western states over that decade. Idaho's Trust Lands grazing fees per AUM are shown by the black squares. At the beginning of the 2001-2011 period, Idaho's Trust Lands grazing fees were above those in Oregon, Wyoming, and Utah (scattered sections). By the end of that decade Idaho's Trust Lands grazing fees had fallen below Oregon's and were approaching those of Wyoming and Utah (scattered), the two states with the lowest fees of the states this IDL study used for comparisons.

One of the reasons for this relative decline in Idaho's Trust Lands grazing fees compared to other Western states was the very slow growth or absolute decline in the Idaho Trust Lands grazing fees. Over the 2001-2011 period, there was almost no growth in the Idaho Trust Lands grazing fee, 0.4 percent per year. For the eleven Western states for which NASS reports the state trust lands grazing fees, the growth rate was 2.7 percent per year, almost seven times higher that the growth in the Idaho Trust land grazing fee. The Idaho Trust Lands grazing fee growth rate was less than one-tenth of the Oregon growth rate, about one-sixth of the Wyoming and Washington lease rates, and about one-twentieth of the growth rate of Utah's scattered state grazing sections. See Figure 3 below. At least for this particular decade that the IDL study analyzed, Idaho's Trust Land grazing fees were trailing other states in adjusting for changes in the economic value of Trust Land grazing.

The Idaho Land Board has asked the Policy Analysis Group (PAG) at the University of Idaho to "provide context for assessing financial performance of various methods of establishing grazing fees for Idaho Trust Lands."[7] The University of Idaho PAG has carried out several analyses of different methods that could be used to establish Idaho Trust Lands grazing fees.[8] All of those analyses found that Trust Land grazing fees set by the existing formula and most of the alternative formulae that were considered did not lead to returns on Idaho Trust Lands grazing that met the competitive return that was set as the appropriate target. Put slightly differently, the Idaho private lands grazing fees can be adjusted to reflect fair market forage values by taking

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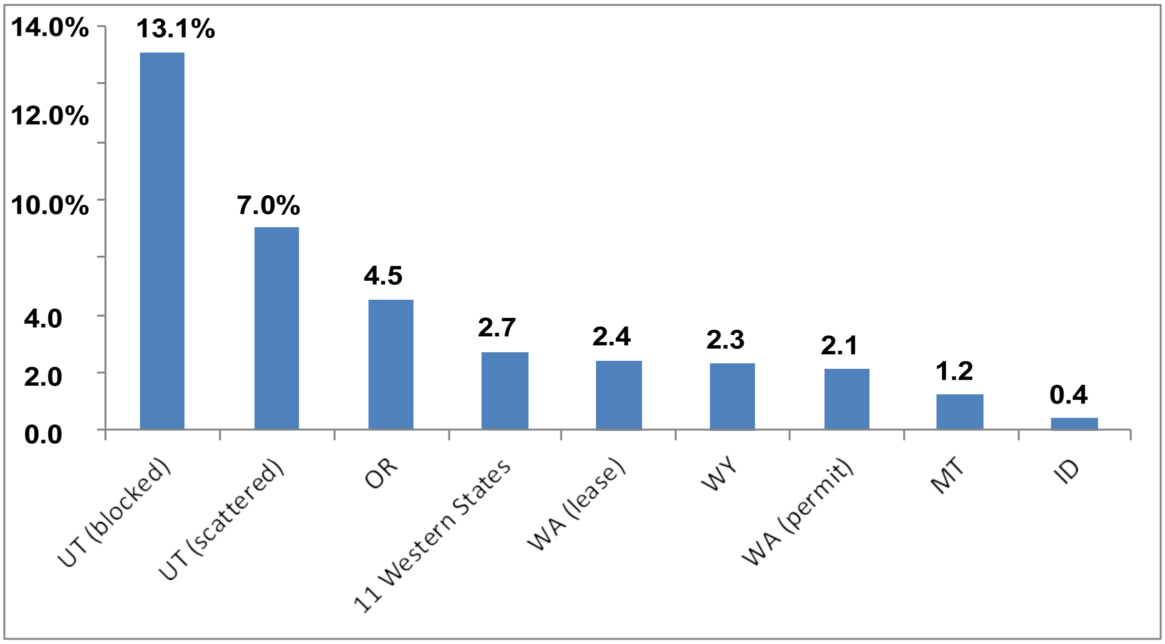
[6] Resource Dimensions, August 2012, "Idaho Department of Lands Grazing Market Rent Study."
[7] Becker, Dennis R. and Phillip S. Cook, March 2016, "Financial Performance of Idaho's Endowment Rangelands, Issue Brief No. 17, Policy Analysis Group, University of Idaho, p. 2.
[8] In addition to the analysis cited in the footnote above, the PAG also provided the Land Board with a "Grazing Rate Review Analysis" on January 20, 2017, and an April 25, 2017 "Grazing Rate Review-Analysis of Alternatives." The PAG provided an Addendum to its January 20, 2017 analysis on February 26, 2017, which provided an analysis of the Montana method of setting trust lands grazing fees.

into account the additional services private grazing land owners provide. When those estimates of the fair market forage value of Idaho Trust Lands are compared to the suggested grazing fees for Idaho Trust Lands, none of the formulae except for one come close to that fair market forage value of Trust Lands.

Figure 3.
Average Annual % Increase in State Trust Lands Grazing Fees, 2001 - 2011



Source: Idaho Department of Lanes Grazing Market Rent Study, August 2012, Figure 4.2.

As the University of Idaho PAG stated in its March 2016 "Financial Performance of Idaho's Endowment Rangelands" said:

> "…viewed strictly from a financial asset perspective, returns to endowment beneficiaries are below benchmark rates of return obtained by other [state of Idaho asset] investment classes. This is in part because it is not possible to attain targeted rates of return from grazing net income…when fees are set below the fair market value…Form this perspective a higher grazing fee would be warranted." (p. 14)

The January 2017 "Grazing Rate Review Analysis" found that for the four alternative approaches to setting grazing fees that were actually modeled, three of the four (Status Quo, Revised Status Quo, and Wyoming Model) failed to meet the fair market ['target"] rate of return for the years analyzed. The Calf-Crop Share formula met the "benchmark rate of return for some years and discount rates." (Table 3, p. 15, emphasis added)

The February 2017 Addendum to the January 2017 "Grazing Rate Review Analysis" compared four alternative formulae for setting the Idaho Trust Lands grazing fee to an estimate of the fair market forage value on Trust Lands. That fair market forage rate was calculated by adjusting the Idaho private land grazing fees downward to reflect the additional value of services provided by private owners of grazing lands. The University of Idaho PAG used a 30 percent reduction from the private grazing fee to obtain an estimate of the fair market value of Trust Lands grazing. For the years 2011 and 2012, the estimated grazing fees from the various alternative formulae were only about half the estimated fair market forage value. For the years 2013 through 2016, the various alternative formulae generated grazing fees that were 60 to 70 percent of the fair market value. Only Alternative #4, the Calf Crop Share formulae, for the years 2014 and 2015 actually produced grazing fees equal to the fair market rate.[9]

As will be discussed below, the Montana Model as applied in this February 2017 University of Idaho PAG modeling systematically specified Idaho Trust Land grazing fees that matched the estimated fair market value of the forage on Idaho Trust Lands. That was the result because that formula effectively set Trust Lands grazing fees on the basis of the Idaho private grazing fees reduced to reflect the higher level of services provided to private land grazers. This PAG modeling based on the Montana Model, however, was replaced in the IDL "Grazing Rate Methodology Review" that presented the alternative methods for setting the Idaho Trust Lands Grazing fees on which the Land Board was seeking public comment. The reason for modifying the University of Idaho PAG proposed Montana Model was not discussed in the Methodology Review.

Conclusions on the Appropriateness of Past and Current Trust Land Grazing Fees

In general, none of the alternative ways of calculating Idaho Trust Lands grazing fees that the Land Board has offered for public comment will lead to grazing fees that reflect the fair market value of the forage on those lands or provide the target rate of return on asset value. In that sense, it appears that most of those methods are not literally consistent with the Idaho constitutional mandate that the Trust Lands be managed "…in such a manner as will secure the maximum long term financial return…" (Section 8 of the Idaho Constitution)

3. An Overview of the Issues Raised by the IDL in Its Request for Comments on Alternatives Ways of Setting and Adjusting Idaho Trust Land Grazing Fees

In the IDL's *Grazing Program Business Plan* (May 2015), the IDL committed itself to "achieve market rates for grazing leases that align with fair market forage values." "That objective aligns with the [Idaho] constitutional mission to maximize revenues for state endowment trust land beneficiaries and justifies a periodic review of the Grazing Program to ensure that market rates are being realized."[10]

Note the emphasis on "market rates" and "fair market forage values" as the appropriate reference point is setting grazing fees for Idaho Trust grazing lands. Unfortunately, most of the proposed approaches for determining Trust Land grazing fees that have been put up for comment do not meet this criterion.

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[9] Becker, Dennis, Policy Analysis Group, University of Idaho, "Alternative #6 Addendum-Grazing Rate Review Analysis," Tables 1 and 2, pp. 2-4.
[10] IDL, Grazing Rate Methodology Review, request for Comments. P. 1. Undated (ca. late June 2017).

This is not because we do not know how to calculate the fair market value of Trust Lands grazing. In all of the studies that IDL had the Policy Analysis Group at the University of Idaho carry out of alternative ways to annually estimate appropriate Trust Lands grazing fees, the PAG evaluated the proposed Trust Lands grazing fee against fair market value targets to determine how close the proposed Trust Lands grazing fee was to that fair market target expressed either in a percentage return on asset value or as a direct comparison of the proposed grazing rate to the fair market grazing fee target.

The fair market grazing fee for Trust Lands that has been used by the University of Idaho PAG to evaluate the adequacy of the actual Trust Lands grazing fees has been calculated as the average private grazing fee in Idaho multiplied by an estimate of how much less valuable Trust Land grazing is than private land grazing in Idaho due to the fact that Idaho Trust Lands provide fewer valuable services to grazers, such as fencing, water supply, livestock monitoring, etc. The size of that multiplier to adjust for lower levels of services provided with Trust Lands grazing has varied considerably, ranging from 88 percent to 56 percent. We will discuss the empirical basis of the different values of that multiplier below.

A. *Base Year Grazing Values*

Instead of proposing Trust Lands grazing fee formulae that are directly tied to the fair market value of that grazing, a variety of indirect approaches have been taken to estimating appropriate Trust Lands grazing fees. Three of the proposed five approaches on which the Land Board has requested public comment begin with a base year grazing value, either current or a past year and then use an index built around variables that are expected to change the forage value associated with Trust Lands. Those three approaches that index base year grazing values have the words “status quo” in their names. The existing formula for the Trust Lands grazing fee (Alternative #1: Status Quo) is built around a rough estimate of the value of Trust Lands grazing in 1993, about five dollars per AUM. That quarter-century-old informal estimate continues to be used

The Alternative #2: Revised Status Quo ($1.70) proposes to continue to use that base value from 1993 but to change the index used to adjust it annually. The Alternative #3: Revised Status Quo ($2.00) proposes to increase the base value by about 18 percent to better represent 2016 values, and then annually adjust the Trust Lands grazing fee based on the same simplified index used in Alternative #2. The new base value of the Trust Land grazing fee for Alternative #3 was “indexed at approximately 56% of 2016 private lease rate.” [11] That would produce a 2016 Trust Lands grazing fee of $9.71.[12] The source of the 0.56 multiplier applied to Idaho private grazing fees to produce that base Trust Lands grazing fee was not provided or explained.

[11] Op. cit. IDL “Grazing Rate Methodology Review,” p. 3.
[12] $17.34 x 0.56 = $9.71.

B. The Type of Economic Data That Would Be Used to Annually Adjust an Idaho Trust Land Grazing Fee

The University of Idaho Policy Analysis Group (PAG) that has been working with the Idaho Land Board and the Grazing Rate Review Subcommittee has provided criteria by which to evaluate alternative approaches to estimating grazing fees for Trust Land forage. One of those criteria is that the formula used be driven by market data, specifically "published and established market data for prices, costs, and revenues associated with livestock grazing in Idaho."[13]

There are two related, but different, types of market data that have been used to estimate market-based grazing fees for forage on public lands. One is data on the costs and revenues associated with raising livestock on grazing land. The assumption is that the value of grazing land is determined by its ability to support livestock production and that livestock prices and measures of the costs associated with that production process will determine the demand for and value of the forage on grazing land. Livestock producers favored the use of this type of market data to set Trust Land grazing fees, arguing that it introduces information on the livestock producers' *ability to pay.*

The other type of market data that has been used to estimate the value of livestock grazing on public land is the price of such livestock grazing on private lands in Idaho that are similar in character to the Trust Lands that are leased for grazing. The grazing fees that the private owners of grazing land charge to ranchers to graze their livestock on that private land could provide useful information on what ranchers seeking to graze their livestock on Idaho Trust Lands are, in fact, willing to pay. This information focuses on what livestock producers were *willing to pay* as opposed to their *ability to pay.*

Three of the approaches to setting the Trust Lands grazing fees on which the Land Board is seeking public comment specify the use of information associated with the value of the meat produced by livestock operations and/or the cost of the inputs necessary to produce that meat.

> The formula used by Idaho to set Trust Land grazing fees since 1993, labeled Alternative #1: Status Quo, has used *both* of these different types of market data: private land grazing fees and the market price of beef, and a beef production cost index. This is the only alternative that includes both measures of livestock production value/costs and measures of private grazing fees.
>
> Alternative #4: Calf Crop Share makes use of only beef prices and costs of production. The value of a 550-pound steer adjusted for various characteristics of the livestock operation establishes the value per animal produced. University of Idaho cost modeling of cattle operations is used to determine the share of the costs that are forage- or pasture-related. That share applied to the value produced establishes the value associated with the forage and, therefore, the appropriate Trust Land grazing fee.

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[13] "Grazing Rate Review Analysis, January 20, 2017, University of Idaho, College of Natural Resources, Policy Analysis Group, Dennis Becker, p. 2.

Alternative #5: Montana Model nominally also includes the price of beef along with grazing fees associated with private Idaho grazing lands. However, in actual use it does not appear that the price of beef actually plays a role in determining the Trust Lands grazing fees the Montana Model generates. Private grazing fees in Idaho are the primary data determining grazing fees under this alternative. This will be discussed below.

Conclusions on the Structure of the Formulae Used to Estimate Fair Market Grazing Fees of Idaho Trust Lands

The historic base value of the per AUM grazing fee that is then projected forward using indices of various relevant economic factors needs to be regularly re-estimated and then re-indexed to provide estimates for future years. The current base value has not been changed since 1993 nor was the index values reset when it was adopted. As a result, there is little reason to trust the formula and its logic is anything but transparent. Any new formula should be periodically reset with a current base per AUM base grazing fee in contemporary dollars and the indices determining future values should be reset so that the formula is more easily understood by the public.

4. Logical and Statistical Problems with Combining Livestock Market Prices and Costs as Well as Data on Private Lands Grazing Fee

It is clear that the profitability of livestock production is likely to be related to the grazing fees that livestock producers are willing to pay for forage for their animals. Higher beef prices increase the demand for forage and the price beef producers are willing to pay for that forage. On the other hand, higher costs in the production of beef are likely to have the opposite impact on grazing fees. It is not surprising, therefore, that in the development of the federal grazing fees formula, on which Idaho's current Trust Land leasing fee formula is based, livestock interests wanted to use *only* livestock market prices and costs to determine the grazing fees. The land managers, the U.S. Forest Service and Bureau of Land Management, on the other hand, wanted to *only* include market data on private grazing fees. The "compromise" was to include both.[14] That was a serious conceptual mistake.

Since the private grazing fees are influenced by the profitability of livestock production, putting both of these types of data into the formula to estimate what Trust Lands grazing fees should be added statistical confusion to the formula. The data sets being used to determine public land grazing fees were correlated with each other and different data sets effectively measuring the same thing were included in the formula.

This was recognized at the time that the federal grazing fee formula was adopted and it was recognized by the University of Idaho PAG that assisted the Idaho State Board of Land Commissioners in the development of the five alternative approaches to setting Trust Land grazing fees. That is why there are two Alternatives, #2 and #3 labeled "Revised Status Quo."

[14] Torell, L. Allen et al. 2003. An evaluation of the federal grazing fee formula. *J. Range Management* 56 (November): 577-584. Table 1.

As the University of Idaho PAG explained in its January 2017 Grazing Rate Review Analysis: “This alternative revises the current Status Quo formula to correct statistical concerns. The first is that key indices (Prices Paid Index and Forage Value Index) are highly correlated and may artificially inflate statistical predictability.” [15] Dr. Neil Rimbey, Extension Range Economist at the University of Idaho, in a historical review of federal and Idaho grazing fee policies pointed out that: “The existing [Idaho Trust Land grazing] fee system is not perfect as the gap between private lease rates and IDL rates continues to widen. This is primarily due to the large negative impact of the livestock Prices Paid Index that is included in the formula.” [16] As a result of these statistical problems with the current Idaho Trust Lands grazing fee formula, Dr. Rimbey recommended dropping all of the variables except for the previous year’s Idaho (private lands) forage value index. That is the basis for the Revised Status Quo Alternatives #2 and #3.

Conclusions on the Data Sets That Should Be Used to Estimate Trust Land Grazing Fees

One conclusion from this discussion is that data associated with livestock markets and production should not be combined with data reflecting private grazing land fees. Doing so creates statistical problems that make the estimated Trust Lands grazing fees inaccurate and misleading. Dependable fair market Trust Lands forage values will not be derived.

In addition, a major simplification of the current Trust Lands grazing fee formula could provide the most defensible Trust Lands grazing fee formula. Private land grazing fees are highly correlated with each other one year to the next providing a relatively stable index for predicting future private grazing fees. In addition, private grazing lands fees represent valuable market information as to what Idaho livestock forage is worth. Adjusted for differences in owner-provided services, these private grazing land fees can determine a fair market grazing fee for Trust Lands.

The fifth criteria by which the Land Board asked that proposed formulae for determining Trust Lands grazing fees be evaluated is that the “formula is fair, predictable and certain for both parties.’’[17] Unfortunately agricultural markets are not “fair, predictable and certain.” Instead they are notoriously volatile in ways difficult to predict. This puts this fifth criteria in conflict with the second criteria: “The formula is a defensible process driven by market data.”[18] If that market data it the price of beef and costs of raising beef, the resulting Trust Lands grazing fees are likely to swing substantially from year to year. This is not as likely to be the case if the Trust Lands grazing fees are tied to private grazing land fees.

5. An Evaluation of Alternative #5: The Montana Model

Alternative #5, the Montana Model, on its face appears to violate the conclusion above to not mix market agricultural values and market grazing fees in a formula to determine Trust Lands

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[15] Memo to Idaho State Board of Land Commissioners, Grazing Rate Review Subcommittee, from Dennis Becker, Policy Analysis Group, University of Idaho, dated January 20, 2017, p. 5.
[16] Idaho State Land Grazing Lease Rates: Historical Background, undated, ca. 2015, p. 3.
[17] Op. cit. University of Idaho Policy Analysis Group, “Grazing Rate Review Analysis, January 20, 2017, p. 2.
[18] Ibid.

grazing fee. This is so because the Montana Model is nominally built around the market price of beef. Under that formula, the Idaho Land Board would develop a multiplier based on the Idaho private grazing lands lease rate that would be applied to the market price of beef to obtain the Trust Lands lease rate.

At the request of the Idaho Land Board, the University of Idaho PAG developed a formula for Idaho Trust Lands grazing fees based on the approach used in Montana.[19] The "multiplier" that would be applied to the market price of beef would be:[20]

$$\frac{0.70 \times \text{ID Private Land Grazing Lease Rate (2016)}}{\text{Market Beef Cattle Price}}$$

The 0.70 is a 30 percent discount applied to the private land grazing lease rate to adjust for the reduced services the Idaho Trust Lands provide to ranches grazing their livestock compared to private land owners as discussed above. Note that if this ratio is multiplied times the market beef cattle price, the beef cattle prices will cancel out and simply leave a formula involving 70% of the ID Private Land Least Rate: 0.70 x $17.34 = $12.15 per AUM.

In this formula, the market beef cattle price has no impact on the calculated Trust Lands fair market forage value. Only the private land grazing lease rate level and the percentage discount applied to the private lease rate impact the calculation. The University of Idaho PAG recognized this and noted that the Trust Lands grazing fee that results from this approach is an estimate of the fair market value or benchmark grazing rate that yields the target rate of return on the land expectation value of the Idaho Trust Lands. That is, the Trust Lands grazing fee produced by this approach is simply an estimate of the fair market value of the forage on Trust Land based on the private grazing land lease rate: The private grazing fee multiplied times the appropriate discount for reduce services provided to grazers. As discussed above, this is the only approach among the five that directly seeks to estimate the fair market value of Trust Lands grazing rather than indirectly estimating a value that might, more or less, reflect fair market value.

Because of this design, the University of Idaho PAG pointed out that: "Of the six alternatives analyzed, the Montana Model yielded the highest ROA (return on assets)." Table 2 of that "addendum" showed that the Montana Model had a return on asset value significantly above the other alternative approaches to setting Trust Lands grazing rates. The return on assets was exactly equal to the competitive target return being sought. This is the result because the price of beef does not affect the estimated Trust Lands grazing fee in this formula. Only the adjusted private lands grazing fees matter.

The "addendum" report to the Land Board developing the Montana Model also discussed the strengths and weaknesses of this approach to setting Trust Lands grazing fees. Among the

[19] February 26, 2017, Memo from Dennis Becker, Policy Analysis Group, University of Idaho, to Idaho State Board of Land Commissioners, Re: Alternative #6 Addendum—Grazing Rate Review Analysis. This was designed as an addendum to the January 20, 2017, analysis of five grazing rate alternatives that the Policy Analysis Group had provided to the Idaho Land Board. The "Alternative 6" in the title became "Alternative 5" in the "Grazing Rate Methodology Review" prepared by the IDL and offered for public comment in July 2017.

[20] Ibid. p. 1.

weaknesses are listed: “[grazing] rate corresponds to livestock prices, which fluctuate greatly” and “potential for wide price swings.” Among the strengths are listed: “highly responsive to market data” and “inputs track closely with livestock markets” and “rate corresponds closely to livestock prices and lease rates.” These statements are expressions of concern about any grazing fee formula tied to the price of beef and/or the costs of raising beef as discussed above. But for the Montana Model as presented by the University of Idaho PAG, this is not a relevant concern because the concern about the volatility of grazing fees under this approach incorrectly assumes that the Montana Model would track the market price of beef, which, as pointed out above, is not the case.

One can test the assertion that the Trust Lands grazing fees resulting from the Montana Model will be more volatile by calculating the standard deviation of the projected Trust Lands grazing fees between 2011 and 2016 that result from each of the six alternatives that were evaluated in the “addendum” report on the Montana Model. In fact, the variation in the grazing fees projected by each alternative between 2011 and 2016 was by far the *lowest* for the Montana Model. The standard deviation of the Montana Model grazing fees for this time period was only half the standard deviation of the grazing fees of the other five alternatives. That is, the Montana Model as presented does not produce widely fluctuating estimates of Trust Lands grazing fees. It produces the most stable grazing fees.

The above discussion of the Montana Model is based on February 26, 2007, addendum” study prepared by the University of Idaho PAG for the Land Board. In the IDL “Grazing Rate Methodology Review” review that summarized the five Trust Lands grazing fee approaches on which the public was asked to comment, the Montana Model was presented in a quite different manner. Instead of discounting the Idaho private land lease rates by 30 percent, the IDL version of the Montana Model indicated that it discounted the private lease rates by 44 percent when calculating the market value of Trust Land leases. No explanation or justification of this discount factor was provided. We discuss the appropriate discount for differential services provided by grazing land owners below.

The table presented in the IDL “Grazing Rate Methodology Review” that presents the Trust Lands grazing fees that would result from each of the five alternative approaches does not match the similar table in the February Addendum report. In particular the results for the Montana Model are not similar for the years both tables cover. This is partly understandable if the IDL shifted from a 30 percent discount to a 44 percent discount for differences in owner-supplied services. But the Calf-Crop Share results are also different with the 2013-2018 results in the Grazing Rate Methodology Review matching the 2011-2016 results in the February Addendum report. This may be the result of one of the tables not reflecting the two-year lag in the application of the results of the formula to a particular year. But the reported Trust Lands grazing fees for Alternatives 1 and 2 in the Grazing Rate Methodology Review table does match the Addendum Table 1 (Alternatives #1 and #5). This difference in formulae and results, without any explanation, between the analysis of the University of Idaho PAG and the analysis of the IDL is confusing and makes it difficult for the public to evaluate the results of the analysis of the alternative approaches to determining a fair market value for Trust Lands grazing fees.

What the IDL appears to have done with the Montana Model is to consciously reduce the Trust Lands grazing fees that result from the Montana Model. In the Addendum analysis, the Montana

Model generates $10-$12 per AUM lease rates. Only the Calf-crop share alternative comes close to $12 for two years under the other alternatives. Starting with a much larger discount from the private lands lease rates to account for differences in owner-supplied services and then moving towards a discount that is empirically justified *may* be a way of phasing the Montana Model in, but permanently adopting a 44 percent discount from private leases rates does not appear defensible based of the empirical evidence, especially in Idaho, that is currently available.

Conclusions on the Use of the Montana Model to Determine Fair Market Trust Lands Grazing Fee

The University of Idaho PAG has demonstrated that the Montana Model can be applied to Idaho to determine empirically-based fair market grazing fees for Idaho Trust Lands. That formula involves only the Idaho private lands grazing fees and an estimate in the differential value of land-owner-supplied services. This approach estimates a fair market Trust Lands forage rate each year. As a result, a “base value” does not get out-of-date. This approach also provides relatively steady values for Trust Lands grazing fees from year-to-year. It is also based on easily understood data.

The IDL’s presentation of the Montana Model deviated significantly from the University of Idaho PAG presentation. It is difficult to reconcile the two presentations. The IDL’s version of the impact of the Montana Model should not be used until it is explained, modified if necessary, and represented to the public for comment. The PAG presentation *can* be used for the comparative analysis.

6. Discounting Private Grazing Land Lease Rates for Differences in Owner-Provided Services to Estimate Fair Market Trust Land Grazing Fees

As many economists have noted for decades, there *is* market information on the value of livestock forage on Western grazing lands. Significant amounts of private land are leased out to livestock producers. The federal government, USDA-National Agricultural Statistics Service (NASS), has collected data on those private land grazing lease rates for over half a century. Those private grazing land lease rates were used by the federal government to form the Forage Value Index (FVI). That FVI still is used, along with other variables, in both the Federal lands and the Idaho Trust Lands grazing fee formulae to annually adjust an estimated base grazing fee to appropriate levels over time. However, because it is combined with other data with which it was highly correlated, the information on grazing fees for private forage lands could not play a useful role in establishing reasonable Trust Lands grazing fees.

One criticism of the use of grazing fee information from private grazing land leases has been that the owners of private grazing land often provide valuable services to livestock producers who lease their land: fencing, water supply, stock monitoring, etc. The IDL does not provide the same services to the ranchers who lease Trust Lands. For that reason, the value of Trust Land grazing might be expected to be lower than the grazing value of private lands.

Since the 1970s there has been ongoing empirical analysis of just how to quantify the value of the difference in services provided to ranchers grazing on private lands as opposed to those grazing on federal or various state-owned grazing lands. One of the more recent, 2014, studies of the impact of the additional services provided to those leasing private grazing lands in Idaho found that the absence of such services reduced the lease rate by 12 to 14 percent depending on the location within Idaho.[21] That would suggest a 12 to 14 percent discount or a 0.86 to 0.88 multiplier applied to Idaho private grazing fees to obtain an estimate of the fair market value of Trust Lands grazing fees.

A 2011 study of Montana state land grazing fees sought to quantify the difference between state grazing lease values and private land grazing values by looking at the grazing fees on state lands when there was competition among ranchers for those leases. These competitive lease values on state lands were then compared to the average private land grazing fees. This allowed a comparison of two competitive market values: one for state lands without the level of private services and another for private lands with those additional services included. That study concluded that the additional services provided by private grazing land owners made up 22 percent of the private grazing fee, indicating a 0.78 multiplier applied to the private land grazing fee to obtain the fair market grazing fee for Montana trust lands.[22] If the earlier modeling carried out in 1992 of Montana grazing fees was applied to 2010 state leases, the appropriate multiplier of the Montana private grazing fees to make them market values for leasing state lands was estimated to be 68 percent. This older result is similar to other estimates made in the late 1980s and early1990s where a multiplier of about 70 percent emerged as a consensus value in that time period.[23]

The Quality of the USDA State Data on Private Lease Rates

The USDA NASS data on private grazing lease rates is the only consistent reporting of private grazing lease rates available at the state level over a lengthy period. The reliability of that data has been criticized by researchers for two reasons. First, this survey data was intended to provide information for grazing fees at the national level. As a result, the annual sample size within a particular state is quite small, undermining the reliability of the estimated annual data values. Second, this survey does not ask respondents to consider a particular transaction in which they personally have engaged and report that value. Instead people are asked to recall or speculated on lease rates in their area, leading to reporting that might appropriately be labeled as speculation or hearsay.[24]

Researchers have been aware of these problems and they have estimated the determinants of private lands grazing fees based on their own independent surveys of ranchers leasing private

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[21] Neil Rimbey et al., “Idaho Private Rangeland Grazing-Lease Arrangements, University of Idaho, College of Agricultural and Life Sciences, Research Bulletin 185, August 2014, p. 23 and Table 15. Also see Resource Dimensions, “Idaho Department of Lands Grazing Market Rent Study, August 2012, page ES-4 and p. 108, a report done for the Idaho Department of Lands.
[22] Bioeconomics Incorporated, Montana Trust Land: Grazing Lease Rate Valuation Analysis, April 26, 2011. P.12.
[23] See Torell, LS. et al.1998. *Economic Considerations for Setting Grazing Fees on New Mexico State Trust Lands*, Special Report 81, New Mexico State University Agricultural Experiment Station. Also Duffield, J. and B. Anderson. 1993. *Economic Analysis of the Values of Surface Uses of State Lands,* Montana State Lands, Helena, Montana.
[24] Resource Dimensions, “Idaho Department of Lands Grazing Market Rent Study, a report done for the Idaho Department of Lands, August 2012, page 75.

grazing land. Their statistical modeling seeks to include all of the types of data that are likely to influence those private grazing fees. These "hedonic models," among other things, can estimate the impact of the various services provided by land owners to livestock grazers and provide an estimated market value of a grazing lease that does not provide significant services to ranchers who lease the land. These independent surveys and statistical analyses provides a check on conclusions reached on the basis of USDA NASS data. For Idaho, those analyses have confirmed that the NASS data leads to estimates of average grazing values on private land that are statistically similar to those indicated by NASS data.[25] That provides some confidence that the USDA NASS is reliable enough to support the estimation of fair market values for Trust Lands grazing fees. Periodic surveys of Idaho private land grazers independent of NASS can confirm or challenge the use of that NASS data in the future as Trust Lands grazing fees are reevaluated periodically.

Conclusion on Using USDA NASS Data on Private Lease Rates in Idaho to Estimate Fair Market Value of Trust Land Grazing

Recent empirical analyses of private and state trust land grazing fees in Idaho and Montana indicate that private land grazing fees can be converted to fair market grazing fees for Idaho State Trust Land by reducing the private grazing fees by 10 to 20 percent. This is a smaller discount for services not provided to grazers than earlier studies suggested was appropriate.

Recent empirical analysis in Idaho has also surveyed those owning and leasing private grazing lands for livestock production. The analysis of that data allowed the estimation of the determinants of Idaho private lands grazing fees. Those estimated Idaho private grazing fees were not statistically difference from the annual estimates provided by the federal NASS estimates. That provides some confidence in the reliability of using that federal data to set Trust Lands grazing fees.

These types of empirical studies of private grazing practices in Idaho can also allow the periodic adjustment of estimated fair market Trust Land grazing fees.

7. Estimating the Financial Returns on Trust Land Asset Value

The Idaho Constitution requires that in the state's management of Trust Lands, it must "maximize long term financial return to trust beneficiaries through revenues generated from state endowment trust lands…" (Article 9, Section) That financial language encourages comparing alternative ways of setting Trust Lands grazing fees exclusively in financial terms: What was the return on state ownership and management of those Trust Lands? In various documents prepared to inform the Land Board and IDL, experts have compared the various alternative ways of setting the Trust Lands grazing fee in terms of the "return on asset value." This, it is suggested, will allow the management of those Trust Lands to be compared to the management of other state assets such as timber lands and the management of private assets

[25] Op. cit. Neil Rimbey, et al. 2016, p.24.

by firms and individuals to see how well the State of Idaho is doing with the assets entrusted to it.[26]

Because state grazing lands are rarely sold on the market, it is difficult to establish what the asset value of that land is from market sales. The alternative way of establishing the value of that land is to capitalize the stream of revenue that would come to the state if the land was leased at a fair market value, i.e. divide the annual net revenue from grazing fees by the target rate of return the Land Board believes the assets under its care should be generating.

An alternative, and, arguably, simpler way of proceeding may be to first specify how the AUM fair market value of the forage on those Trust Lands is going to be calculated and then proceed to calculate the per AUM return actually being realized, i.e. the actual AUM grazing fee that is being suggested by one approach or the other. The ratio of the proposed Trust Lands grazing fee to the calculated AUM fair market value tells us how close the propose grazing fee came to the AUM fair market value that is assumed to be the constitutional target.[27]

That ratio of the proposed AUM grazing fee to the AUM fair market value can be used to compare alternative formulae for calculating an appropriate grazing fee. Alternatively, that ratio can be multiplied times the target rate of return and the different alternatives can be stated in terms of their different return on asset value. E.g. if the target return on assets is 4 percent and a particular formula for establishing a Trust Lands grazing fee is only 40 percent of the fair market grazing fee value, then the return on asset value for that grazing fee is 0.4 times 4 percent or 1.6 percent. The same financial information is conveyed by either method. Both tell us that the Trust Lands grazing is returning only 40 percent of a fair market return. The ease of citizens understanding of the results, however, may differ depending on which presentation of the results is chosen.[28]

Including the Appreciation of State Land Values in the Calculated Return on State Land Management

A 2016 University of Idaho PAG Issue Brief on the “Financial Performance of Idaho’s Endowment Rangelands” goes beyond the focus on Trust Lands grazing fees and includes in the overall return on Trust Lands asset value an estimated increase in value of the Trust Lands. In the PAG analysis adding this estimated appreciation in the value those trust lands to the net revenues from the grazing fees boosts the overall return from 1.7 percent per year when only

[26] See, for instance, Table 2 in the January 20, 2017 “Grazing Rate Review Analysis,” prepared for the Land Board by the University of Idaho Policy Analysis Group. Memo from Dennis Becker to Idaho State Board of Land Commissioners.

[27] This is true only if there are no costs associated with operating either private land owners or Trust Lands grazing lease programs. If there are leasing program costs, then it is the ratio of the net incomes that is important. I.e. the Trust Lands grazing fee per AUM less the administrative costs per AUM compared to the fair market forage value per AUM less the administrative costs per AUM.

[28] Again, if there are administrative costs, which there almost certainly are, it is the ratio of the net revenues per AUM that convey how close the Trust Lands grazing fee is to the target per AUM value or target return on asset.

grazing fees are considered to 3.8 percent with the land appreciation included, increasing the apparent return on those lands by 124 percent.[29]

Before discussing the appropriateness of boosting the calculated return on Trust Lands in this manner, it is important to recognize that this proposed adjustment in calculating the total return on Trust Lands assets is irrelevant to the calculation of the fair market value of Trust Land forage and, therefore, an appropriate Trust Lands grazing fee. This is so because ranchers are only leasing the forage on the Idaho Trust Lands. They are not purchasing full use of all asset values that may be associated with the Trust Lands. They are not renting the land, they are leasing the grazing rights. That grazing use is what the grazing fee is intended to cover: the value of the livestock forage found on those Trust Lands. The appropriate market-based fee for that is the fair market value of that forage and nothing else. That is how the January 20, 2016 "Grazing Rate Review Analysis" and the IDL's "Grazing Rate Methodology Review" approached the evaluation of the alternative approaches to calculating grazing fees for the Trust Lands. Only grazing fees and the costs of managing those grazing lands were included. As the January 2017 "Grazing Rate Review Analysis" put it: "Thus, the ROA [return on asset] reflects net income from grazing leases only (forage value) independent of land appreciation (bare land value), because forage is what ranchers lease from the state." (p. 7)

However, it is also unclear that an estimate of the appreciation of the Trust Lands' market value should be included in calculating the total financial return on those Trust Lands. What is being measured by the appreciation in the sales value of the Trust Lands is the expected growth in the grazing fees on private lands. Those private land grazing fees are taken to be a reliable index of the sales value of private grazing lands. On the assumption that Idaho Trust Lands are similar to private grazing lands (except for the higher level of services provided by private grazing land owners), the assumption is made that the sales value of the Trust Lands will increase in a similar manner. But this projection of rising sales value is not a cash flow that the State of Idaho will be collecting and spending to provide government services. That theoretical appreciation in sales value can be realized only by actually selling the lands for their market value in commercial real estate markets. But the State of Idaho does not have a policy of doing that nor is it likely that such a policy will be implemented in the foreseeable future. In short, there are legal and political limits on the sale of those lands. In that setting it would be misleading to list this theoretical estimate in the growth in the Trust Lands' sales value as an *actual* financial return on those Trust Lands. It is not.

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[29] Dennis R. Becker and Philip S. Cook, "Financial Performance of Idaho's Endowment Rangelands," p. 1. University of Idaho, Policy Analysis Group, Issue Brief No. 17, March 2016. The Resource Dimensions "Grazing Market Rent Study," August 2012, done for the IDL estimated that the appreciation of grazing Trust Lands contributed ever more to the overall return on those lands: Of an estimated total return of 4.9 percent, the growth in the value of the land contributed 80 percent of that return and grazing fees only 20 percent (p. 144-146). Resource Dimensions estimated the appreciation in the value of grazing Trust Lands by using NASSA data on the change in the value of "pasture" land. The average annual increase calculated was 15.7 percent per year. For some years the increase in the value of those pasture lands was 25 to 50 percent in a single year. It is not at all clear that this is a reasonable way to estimate the value of grazing Trust Lands given that the availability of irrigation for private pastures is important to the determination of their value or that an open market for private land sales is an appropriate way of conceptualizing the return on state lands that are not for sale.

Conclusion on Including Trust Land Appreciation in Calculating Return on Assets

Projected increases in the sales value of Idaho Trust Lands should not be included in estimates of the return associated with grazing leases on those lands. Ranchers lease the forage on those lands. They do not rent or buy all of the property values associated with those lands.

Projected increases in the sales value of Idaho Trust Lands also should not be included in calculating the "total return on assets" associated with those lands. There are political and legal limits to the sale of those Trust Lands and there is no imminent policy change that is likely to allow the sale of substantial parts of the Trust Lands. For that reason, the conversion of such theoretical land appreciation into a cash flow is not a reasonably foreseeable outcome that should be included in a state government financial statement.

8. Practical Matters: Moving Towards a Trust Lands Grazing Fee That Actually Reflects the Fair Market Value of the Forage

As discussed above, the Montana Model assumes that the fair market value of grazing Trust Lands can be determined by reducing the private lands grazing fee by the value of the additional services private land grazers obtain from the landowners compare to the services Trust Lands provide to grazers. That makes the value of the additional services provided by private grazing landowners an important determinant of the fair market value of Trust Land grazing.

Four different values for the differences in services to grazers have been suggested in the discussion of Idaho Trust Lands grazing fees. Stated as multipliers applied to the Idaho private lands grazing fees, those are:

0.88 to 0.86: 2012 Estimates from the Idaho Grazing Rents Study.
0.78: 2011 Estimate from the Bioeconomics Montana grazing fee study.
0.70: "Consensus" value from 1980s-1990s studies. It was used in UID PAG study.
0.56: Value used in the 2017 Grazing Rate Methodology Review.

Depending on which measure of the value of additional services received by Idaho private land grazers is adopted, the implied "fair market value" of Trust Land grazing will be either far above current Trust Lands grazing fees or within about 20 per cent of them. We demonstrate in the calculations below.

In the February 26, 2017, "Alternative #6 Addendum - Grazing Rate Review Analysis," the University of Idaho Policy Analysis Group estimated the fair market value of forage on Idaho Trust Lands by reducing the Idaho private lands grazing fees by 30 percent to account for the higher level of services provided by private land owners compared to the services provided by the state of Idaho for Trust Lands. Using a 70 percent multiplier was supported by analysis from the 1980s and 1990s. If, instead, we use the value of the services that private Idaho grazing land owners provide to livestock grazers but which Trust Lands used for grazing do not, the private lease rate should be reduced by 14 percent, not 30 percent.[30]

[30] See Section 6 above.

The 2016 average Idaho private grazing fee was $17.34 per AUM.[31] With the 14 percent reduction, the fair market Trust Lands grazing fee would be $14.91 per AUM. The actual Trust Land grazing fee in 2016 was $8.09, only 54 percent of the fair market value implied by an 86 percent multiplier.[32] The 2016 fTrust Lands Grazing fee would have to almost double to reflect this particular estimate of the fair market value of Trust Land grazing.

If, instead, the adjustment for the different level of services provided by owners to grazers was the 44 percent (a multiplier of 0.56) that IDL used in the Montana Model and Revised Status Quo ($2.00) [33], the implied fair market value of Trust Land grazing would be much lower, $9.71 per AUM, about 83 percent of the 2016 Trust Land grazing fee. A twenty percent increase in that Trust Land grazing fee would make the Trust Land grazing fee equal to the f the fair market value of Trust Land forage implied by the 56 percent multiplier.

Minimizing the implied increase in the Trust Land grazing rate in order to produce a grazing fee that could be labeled "fair market value" may have been the purpose of IDL's choice of applying a 56 percent multiplier to the Idaho private grazing fees.

Given that the IDL specifically funded a study of Idaho private land grazing to obtain information that would help the Land Board to incorporate Idaho private land grazing fees into the process of establishing fair market grazing fees for Trust Lands,[34] it would be appropriate to incorporate the relevant results of that study into the Trust Lands grazing fee process, including the 0.86 multiplier to account for the higher value of services associated with private grazing leases. The large gap, 83 percent, between current Trust Lands grazing fees and what the analysis of Idaho private grazing fees suggest should be the target fair market value, however, is likely to discourage making use of the results of that and other studies that IDL has commissioned of how to estimate the fair market value of Trust Land grazing.[35]

One way of proceeding to move the Idaho Trust Lands grazing fees systematically towards the fair market value standard would be to spread the move over a five-year period. Given the size of the gap, 84 percent, however, this would require grazing fees to increase about 13 percent each year for those five years in addition to whatever other increase the private grazing fees were indicating. A more conservative approach would be to move towards a grazing fee level that reached 70 percent of the private grazing fees over the next five years. That would require the grazing fee to grow from $8.09 to $12.14, a 50 percent increase over five years or an annual eight percent increase in addition to whatever increase the changing Idaho private grazing fees were indicating. At the end of that five-year period, the Land Board, could review new information on the accuracy of federal private grazing fees in Idaho and the best information on the appropriate discount below private land grazing fees to obtain a fair market Trust Lands

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[31] University of Idaho Policy Analysis Group, February 26, 2017, "Alternative #6 Addendum – Grazing Rate Review Analysis," p. 1.
[32] Ibid. Table 1, p. 3.
[33] IDL, "Grazing Rate Methodology Review", undated (ca. July 2017), p. 3.
[34] Resource Dimensions, "Idaho Department of Lands Grazing Market Rent Study," a report done for the Idaho Department of Lands, August 2012.
[35] E.g. the "Alternative #6 Addendum – Grazing Rate Review Analysis, February 26, 2017, Dennis Becker, Policy Analysis Group, University of Idaho.

grazing fees. If information from Idaho studies of private grazing fees still indicate that the federal NASS Idaho private grazing fee data accurately reflects changes in private grazing fees and that the appropriate multiplier to be applied to those private grazing fees to determine the fair market Trust Lands grazing fee is still about 0.86, then the Trust Land grazing fee should continue to be increased each year over the following five years until it is based on 86 percent of the Idaho private grazing fee. At that point, the state of Idaho would be receiving the full fair market value of the forage on Idaho Trust grazing lands.

Conclusions on Closing the Gap between Current Trust Lands Grazing Fees and the Fair Market Value of That Trust Lands Grazing.

The 2016 Trust Lands grazing fee was only about half the calculated fair market Trust Lands grazing fee. Because of the size of the gap between current Trust Lands grazing fees and the fair market value of that grazing, it would take an 84 percent increase in the Trust Lands grazing fee to reach the fair market level. For that reason, it may be appropriate to move towards full fair market value over a ten-year period. During the first five years the Trust Lands grazing fees could move to 70 percent of the Idaho private grazing fees. In the follow five years, the Trust Lands grazing fees could move to 86 percent of the private grazing fee level, the current fair market value for the Trust Lands grazing. During that ten-year period, the IDL could continue to analyze private grazing fees in Idaho and the differential value of the services provided by the state and private grazing land owners. That would allow the Land Board to check its progress in moving Trust Land grazing fees to reflect the fair market value of Trust Land forage.

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Summary

Charging fees for grazing private livestock on federal lands is a long-standing but contentious practice. Generally, livestock producers who use federal lands want to keep fees low, while conservation groups believe fees should be increased. The formula for determining the grazing fee for lands managed by the Bureau of Land Management (BLM) and the Forest Service (FS) uses a base value adjusted annually by the lease rates for grazing on private lands, beef cattle prices, and the cost of livestock production. Currently, the BLM and FS are charging a grazing fee of $2.11 per animal unit month (AUM). For fee purposes, an AUM is defined as a month's use and occupancy of the range by one animal unit. The fee is in effect through February 28, 2017. The collected fees are divided among the Treasury, states, and federal agencies.

Issues for Congress include whether to retain the current grazing fee or alter the charges for grazing on federal lands, for instance, through an Administration proposal for an additional administrative fee of $2.50 per AUM. Also, the current BLM and FS grazing fee is generally lower than fees charged for grazing on state and private lands. Comparing the BLM and FS fee with state and private fees is complicated, due to factors including the purposes for which fees are charged, the quality of the resources on the lands being grazed, and whether the federal grazing fee alone or other non-fee costs are considered.

Unauthorized grazing occurs on BLM and FS lands in a variety of ways, including when cattle graze outside the allowed areas or seasons or in larger numbers than allowed under permit. In some cases livestock owners have intentionally grazed cattle on federal land without getting a permit or paying the required fee. The agencies have responded at times by fining the owners as well as impounding and selling the trespassing cattle. A particularly long-standing controversy involves cattle grazed by Cliven Bundy on certain lands in Nevada. BLM continues to seek to resolve the issue through the judicial process.

There have been efforts to end livestock grazing on certain federal lands through voluntary retirement of permits and leases and subsequent closure of the allotments to grazing. Congress has considered measures to end grazing on particular allotments or in specified states, or allowing a maximum number of permits to be waived yearly. Among other reasons, such measures have been supported to protect range resources but opposed as diminishing ranching operations.

Another set of issues involves expiring grazing permits. Both BLM and FS have a backlog of permits needing evaluation for renewal. To allow for continuity in grazing operations, P.L. 113-291 made permanent the automatic renewal (until the renewal evaluation process is complete) of grazing permits and leases that expire or are transferred. The law provided that the issuance of a grazing permit "may" be categorically excluded from environmental review under the National Environmental Policy Act under certain conditions. Provisions regarding categorical exclusions have been controversial.

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Introduction

Charging fees for grazing private livestock on federal lands is statutorily authorized and has been the policy of the Forest Service (FS, Department of Agriculture) since 1906, and of the Bureau of Land Management (BLM, Department of the Interior) since 1936. Today, fees are charged for grazing on BLM and FS land basically under a fee formula established in the Public Rangelands Improvement Act of 1978 (PRIA) and continued administratively.[1]

BLM manages a total of 248.3 million acres, primarily in the West. Of total BLM land, 154.8 million acres were available for livestock grazing in FY2015.[2] The acreage used for grazing during 2015 was 138.8 million acres.[3] The FS manages a total of 192.9 million acres. Although this land is predominantly in the West, the FS manages more than half of all federal lands in the East.[4] Of total FS land, more than 95 million acres were available for grazing in FY2015, with 77.3 million used for livestock grazing.[5] For both agencies, the acreage available for livestock grazing reflects lands within grazing allotments. However, the acreage in those allotments that is capable of forage production is substantially less, according to the FS, because some lands lack forage (e.g., are forested or contain rockfalls). In addition, for both agencies, acreage used for grazing is less than the acreage available due to voluntary nonuse for economic reasons, resource protection needs, and forage depletion caused by drought or fire, among other reasons. Because BLM and FS are multiple-use agencies, lands available for livestock grazing generally are also available for other purposes.

On BLM rangelands, in FY2015, there were 15,910 operators authorized to graze livestock, and they held 17,799 grazing permits and leases.[6] Under these permits and leases, a maximum of 12,365,877 animal unit months (AUMs) of grazing could have been authorized for use. Instead, 8,626,462 AUMs were used.[7] BLM defines an AUM, for fee purposes, as a month's use and

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[1] P.L. 95-514, 92 Stat. 1803; 43 U.S.C. §§1901, 1905. Executive Order 12548, 51 *Fed. Reg*. 5985 (February 19, 1986). These authorities govern grazing on the Bureau of Land Management (BLM) and the Forest Service (FS) lands in 16 contiguous western states, which are the focus of this report. These states are Arizona, California, Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington, and Wyoming. Forest Service grasslands and "nonwestern" states have different fees. In addition, grazing occurs on other federal lands, not required to be governed by the Public Rangelands Improvement Act of 1978 (PRIA) fees, including areas managed by the National Park Service, Fish and Wildlife Service, Department of Defense, and Department of Energy.

[2] This figure was provided by BLM on September 8, 2016. It reflects the BLM acreage within grazing allotments during FY2015.

[3] This figure was provided by the BLM on September 9, 2016. It is an estimate of the acreage within BLM allotments for which BLM billed grazing permit and lease holders. It reflects the period covering March 1, 2015, to February 29, 2016.

4 *East* is used here to refer to all states except the following 12 states: Alaska, Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. For more information on federal land ownership by state, see CRS Report R42346, *Federal Land Ownership: Overview and Data*, by (name redacted), (name redacted), and (name redacted) .

[5] These figures were provided by the FS on September 13, 2016. The acreage used for livestock grazing (77.3 million) reflects the FS acreage in active allotments. Additional acres under other ownerships also were in active allotments. Active means that livestock use was permitted during the year.

[6] BLM uses both permits and leases to authorize grazing. Permits are used for lands within grazing districts (under Section 3 of the Taylor Grazing Act, 43 U.S.C. §315b). Leases are used for lands outside grazing districts (under Section 15 of the Taylor Grazing Act, 43 U.S.C. §315m).

[7] Statistics in this paragraph were taken from U.S. Department of the Interior (DOI), BLM, *Public Land Statistics, 2015*, Table 3-8c and Table 3-9c, at http://www.blm.gov/public_land_statistics/index.htm. The numbers of operators and animal unit months (AUMs) used are reported as of September 30, 2015, and the number of permits and leases and (continued...)

occupancy of the range by one animal unit, which includes one yearling, one cow and her calf, one horse, or five sheep or goats.

On FS rangelands, in FY2015, there were 6,006 permit holders permitted (allowed) to graze commercial livestock, with a total of 5,848 active permits. A maximum of 8,478,832 head-months (HD-MOs) of grazing were under permit; 6,937,876 HD-MOs were authorized to graze.[8] The FS uses HD-MO as its unit of measurement for use and occupancy of FS lands, similar to AUM. Hereinafter *AUM* is used to cover both HD-MO and AUM.

The BLM and FS are charging a grazing fee of $2.11 per AUM through February 28, 2017. BLM and the FS typically spend more managing their grazing programs than they collect in grazing fees. For example, $79.0 million was appropriated to BLM for rangeland management in FY2015. Of that amount, $36.2 million was used for administration of livestock grazing, according to the agency. The remainder was used for other range activities, including weed management, habitat improvement, and water development.[9] For the same fiscal year, BLM collected $14.5 million in grazing fees. The FY2015 appropriation for the FS for grazing management was $55.4 million. The funds are used primarily for grazing permit administration and planning.[10] The FS collected $6.5 million in grazing fees during FY2015.[11]

Grazing fees have been contentious since their introduction. Generally, livestock producers who use federal lands want to keep fees low. They assert that federal fees are not comparable to fees for leasing private rangelands because public lands often are less productive; must be shared with other public users; and often lack water, fencing, or other amenities, thereby increasing operating costs. They fear that fee increases may force many small and medium-sized ranchers out of business. Conservation groups generally assert that low fees contribute to overgrazing and deteriorated range conditions. Critics assert that low fees subsidize ranchers and contribute to budget shortfalls because federal fees are lower than private grazing land lease rates and do not cover the costs of range management. They further contend that, because some of the collected fees are used for range improvements, higher fees could enhance the productive potential and environmental quality of federal rangelands.

(...continued)

maximum AUMs are reported as of January 8, 2016.

[8] Statistics were taken from U.S. Department of Agriculture, Forest Service, Range Management, *Grazing Statistical Summary, FY2015*, p. 4, at http://www.fs.fed.us/rangeland-management/reports/index.shtml.

[9] The amount used for livestock grazing administration versus other rangeland management activities was taken from the BLM website at http://www.blm.gov/wo/st/en/prog/grazing.html.

[10] Other FS appropriations also support livestock grazing but are not separately identifiable. For instance, appropriations for vegetation and watershed management, within the National Forest System account, have been used for range improvements, restoration, and invasive species management. A total of $184.7 million was appropriated for vegetation and watershed management in FY2015, but the portion for activities that benefitted livestock grazing is not identifiable. This information was provided by the FS on September 13, 2016.

[11] Estimates of the cost of grazing and receipts from grazing vary widely. For instance, the Government Accountability Office (GAO) determined that in FY2004, BLM and FS spent about $132.5 million on grazing management, including expenditures for direct and indirect costs. The agencies collected $17.5 million. See GAO-05-869, pp. 21-22 and pp. 30-31 at http://www.gao.gov/products/GAO-05-869. As another example, a 2002 study by the Center for Biological Diversity contained much higher estimates of the cost of livestock grazing on federal lands. It estimated the federal cost of an array of BLM, FS, and other agency programs that benefit grazing or compensate for impacts of grazing at roughly $500 million annually. Together with the nonfederal cost, the study asserted that the total cost of livestock grazing could be as high as $1 billion annually. See *Assessing the Full Cost of the Federal Grazing Program*, the Center for Biological Diversity, October 2002.

Current Grazing Fee Formula and Distribution of Receipts

The Fee Formula

The fee charged by the FS and BLM is based on the grazing on federal rangelands of a specified number of animals for one month. PRIA establishes a policy of charging a grazing fee that is "equitable" and prevents economic disruption and harm to the western livestock industry. The law requires the Secretaries of Agriculture and the Interior to set a fee annually that is the estimated economic value of grazing to the livestock owner. The fee is to represent the fair market value of grazing, beginning with a 1966 base value of $1.23 per AUM. This value is adjusted for three factors based on costs in western states of (1) the rental charge for pasturing cattle on private rangelands, (2) the sales price of beef cattle, and (3) the cost of livestock production. Congress also established that the annual fee adjustment could not exceed 25% of the previous year's fee.[12]

PRIA required a seven-year trial (1979-1985) of the formula while the FS and BLM undertook a study to help Congress determine a permanent fee or fee formula. President Reagan issued Executive Order 12548 (February 14, 1986) to continue indefinitely the PRIA fee formula, and established the minimum fee of $1.35 per AUM.[13]

The 2016 grazing fee of $2.11 represents a 25% increase over the 2015 fee, the maximum annual increase allowed under law. The unadjusted fee for 2016, based on the application of the fee formula, was $3.46 per AUM, according to the National Agricultural Statistics Service.[14] The 2016 fee exceeded $2 for the second time since 1981, when the FS and BLM began charging the same fee. Fees from 1981 through 2016 are shown in **Table 1**. The fee has ranged from $1.35, for half of the years during the 36-year period, to $2.31, for 1981. The fee averaged $1.55 per AUM over the period.

Table 1. Grazing Fees from 1981 to 2016

(dollars per AUM)

1981	$2.31	1990	$1.81	1999	$1.35	2008	$1.35
1982	$1.86	1991	$1.97	2000	$1.35	2009	$1.35
1983	$1.40	1992	$1.92	2001	$1.35	2010	$1.35
1984	$1.37	1993	$1.86	2002	$1.43	2011	$1.35
1985	$1.35	1994	$1.98	2003	$1.35	2012	$1.35
1986	$1.35	1995	$1.61	2004	$1.43	2013	$1.35
1987	$1.35	1996	$1.35	2005	$1.79	2014	$1.35
1988	$1.54	1997	$1.35	2006	$1.56	2015	$1.69
1989	$1.86	1998	$1.35	2007	$1.35	2016	$2.11

[12] 43 U.S.C. §1905.

[13] The executive order is available at https://www.reaganlibrary.archives.gov/archives/speeches/1986/21486b.htm.

[14] This information was provided by the National Agricultural Statistics Service on February 8, 2016. The agency calculates the grazing fee under the formula, but the fee is determined by the Secretary of the Interior (through the BLM) and the Secretary of Agriculture (through the FS).

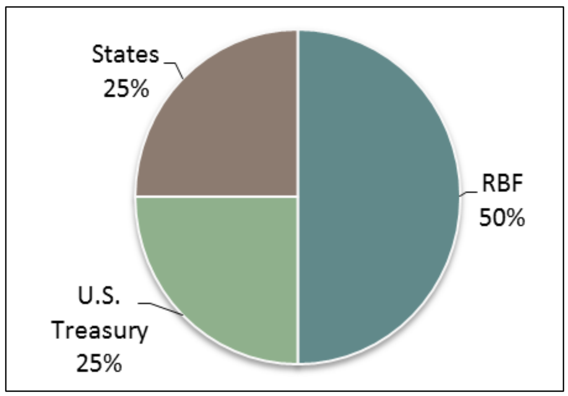
Distribution of Receipts

Fifty percent of grazing fees collected by each agency, or $10.0 million—whichever is greater—go to a range betterment fund in the Treasury. The BLM and FS grazing receipts are deposited separately.[15] Monies in the fund are subject to appropriations. The BLM typically has requested and received an annual appropriation of $10.0 million for the fund. However, for FY2016, the appropriation was $9.3 million, due to a sequester of funds.[16] In recent years, the FS has been requesting and receiving an appropriation that is less than the $10.0 million minimum authorized in law. For instance, for each of FY2015 and FY2016, the agency requested and received an appropriation of $2.3 million, roughly half the fees collected.

The fund is used for range rehabilitation, protection, and improvement, including grass seeding and reseeding, fence construction, weed control, water development, and fish and wildlife habitat. Under law, one-half of the fund is to be used as directed by the Secretary of the Interior or of Agriculture, and the other half is authorized to be spent in the district, region, or forest that generated the fees, as the Secretary determines after consultation with user representatives.[17] Agency regulations contain additional detail. For example, BLM regulations provide that half of the fund is to be allocated by the Secretary on a priority basis, and the rest is to be spent in the state and district where derived. Forest Service regulations provide that half of the monies are to be used in the national forest where derived, and the rest in the FS region where the forest is located. In general, the FS returns all range betterment funds to the forest that generated them.

The agencies allocate the remaining 50% of the collections differently. For the FS, 25% of the funds are deposited in the Treasury and 25% are given to the states (16 U.S.C. §500; see **Figure 1**).[18] For the BLM, states receive 12.5% of monies collected from lands defined in Section 3 of the Taylor Grazing Act and 37.5% is deposited in the Treasury.[19] Section 3 lands are those within grazing districts for which the BLM issues grazing permits. (See **Figure 2**.) By contrast, states receive 50% of fees collected from BLM lands defined in Section 15 of the Taylor Grazing Act. Section 15 lands are those outside grazing districts for which the BLM leases grazing allotments. (See **Figure 3**.) For both agencies, any state share is to be used to benefit the counties that generated the receipts.

Figure 1. Distribution of Forest Service Grazing Fees



Source: CRS.

Note: RBF = Range Betterment Fund.

[15] 43 U.S.C. §1751(b)(1).

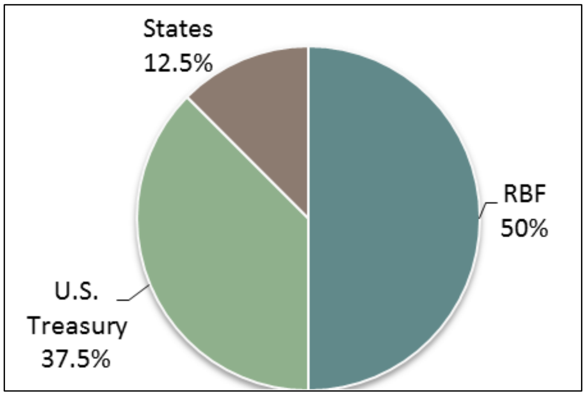
[16] The FY2016 appropriation of $10.0 million was sequestered by 6.8%, for a total of $9.3 million. See DOI, BLM, *Budget Justifications and Performance Information, Fiscal Year 2017*, p. VIII-5, at https://www.doi.gov/budget. The FY2015 appropriation of $10.0 million also was sequestered, resulting in an appropriation of $9.3 million.

[17] 43 U.S.C. §1751(b)(1). For the FS, see 36 C.F.R. §222.10. For the BLM, see 43 C.F.R. §4120.3-8.

[18] Under 16 U.S.C. §501, 10% of these monies are allocated to the National Forest Roads and Trails Fund. However, these funds sometimes have stayed in the Treasury, as directed by annual Interior appropriations laws.

[19] Taylor Grazing Act of June 28, 1934; ch. 865, 48 Stat. 1269. 43 U.S.C. §§315, 315i.

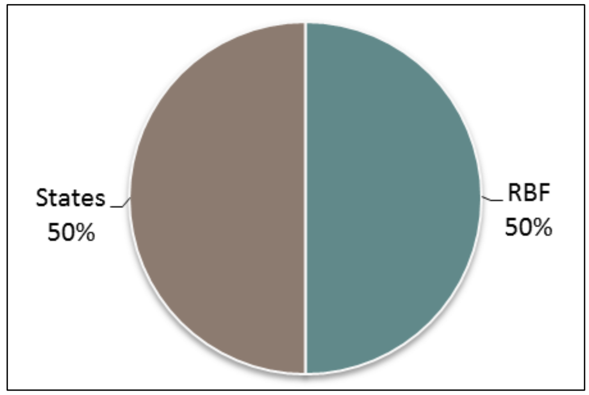
Figure 2. Distribution of BLM Grazing Fees: Section 3



Source: CRS.

Note: RBF = Range Betterment Fund.

Figure 3. Distribution of BLM Grazing Fees: Section 15



Source: CRS.

Note: RBF = Range Betterment Fund.

History of Fee Evaluation and Reform Attempts

PRIA directed the Interior and Agriculture Secretaries to report to Congress, by December 31, 1985, on the results of their evaluation of the fee formula and other grazing fee options and their recommendations for implementing a permanent grazing fee. The Secretaries' report included (1) a discussion of livestock production in the western United States; (2) an estimate of each agency's cost for implementing its grazing programs; (3) estimates of the market value for public rangeland grazing; (4) potential modifications to the PRIA formula; (5) alternative fee systems; and (6) economic effects of the fee system options on permittees.[20] A 1992 revision of the report updated the appraised fair market value of grazing on federal rangelands, determined the costs of range management programs, and recalculated the PRIA base value through the application of economic indices. The study results, criticized by some as using faulty evaluation methods, were not adopted and the report has not been updated since.

President Clinton proposed, and Congress considered, grazing fee reform in the 1990s, but no reforms were adopted. In 1993, the Clinton Administration proposed an administrative increase in the fee, and revisions of other grazing policies. The proposed fee formula started with a base value of $3.96 per AUM, and was to be adjusted to reflect annual changes in private land lease rates in the West (called the Forage Value Index). The current PRIA formula is adjusted using multiple indices, a practice that some criticize as double-counting ability-to-pay factors. Congressional objections forestalled an administrative increase, and new rules for BLM rangeland management that took effect on August 21, 1995, did not increase fees.

No general grazing fee bills have passed either chamber for several Congresses. In the 104th Congress, the Senate passed a bill to establish a new grazing fee formula and alter rangeland regulations. The formula was to be derived from the three-year average of the total gross value of production for beef and no longer indexed to operating costs and private land lease rates, as under

[20] U.S. Department of Agriculture, Forest Service, and U.S. Department of the Interior, Bureau of Land Management, *Grazing Fee Review and Evaluation*, A Report from the Secretary of Agriculture and the Secretary of the Interior (Washington, DC: February 1986).

PRIA. By one estimate, the measure would have resulted in an increase of about $0.50 per AUM. In the 105th Congress, the House passed a bill with a fee formula based on a 12-year average of beef cattle production costs and revenues. The formula would have resulted in a 1997 fee of about $1.84 per AUM.

Current Issues

Fee Level

There is ongoing debate about the appropriate grazing fee, with several key areas of contention. First, there are differences over which criteria should prevail in setting fees: fair market value; cost recovery (whereby the monies collected would cover the government's cost of running the program); sustaining ranching, or resource-based rural economies generally; or diversification of local economies. Second, there is disagreement over the validity of fair market value estimates for federal grazing because federal and private lands for leasing are not always directly comparable. Third, whether to have a uniform fee, or varied fees based on biological and economic conditions, is an area of debate. Fourth, there are diverse views on the environmental costs and benefits of grazing on federal lands and on the environmental impact of changes in grazing levels. Fifth, it is uncertain whether fee increases would reduce the number of cattle grazing on sensitive lands, such as riparian areas.[21] Sixth, some environmentalists assert that the fee is not the main issue, but that all livestock grazing should be barred to protect federal lands.

In the FY2017 budget, the Obama Administration proposed a grazing administration fee of $2.50 per AUM, which would be in addition to the current fee of $2.11 per AUM. The monies would be used for administering grazing, to shift a portion of the costs to permit holders. Use of the fees would be subject to appropriations. BLM estimated that the fee would generate $16.5 million in FY2017, and the FS estimated revenues of $15.0 million in FY2017.[22] The proposal has been opposed by livestock organizations, among others, as an unnecessary and burdensome cost for the livestock industry. The Administration had included similar proposals in earlier budget requests; these proposals were not enacted.

In 2005, several groups petitioned the BLM and FS to raise the grazing fees, asserting that the fees did not reflect the fair market value of federal forage. When the agencies did not respond to the petition, the groups sued.[23] In addition to asserting that the BLM and FS unreasonably delayed response to their petition, the petitioners argued that the agencies were required to conduct a study under the National Environmental Policy Act (NEPA) to determine the environmental impacts of the current grazing fee rate. In January 2011, BLM and FS responded to the petition, denying the request for a fee increase, and the lawsuit was settled.[24]

[21] As described in a BLM glossary, riparian areas are "Lands adjacent to creeks, streams, and rivers where vegetation is strongly influenced by the presence of water.... Riparian areas constitute less than 1 percent of the land area in the western part of the United States, but they are among the most productive and valuable of all lands." See DOI, BLM, *Public Land Statistics, 2015*, p. 256, at http://www.blm.gov/public_land_statistics/index.htm.

[22] DOI, BLM, *Budget Justifications and Performance Information, Fiscal Year 2017*, p. II-6 and VII-35 – VII–36, at https://www.doi.gov/budget. U.S. Department of Agriculture (USDA), Forest Service (FS), *Fiscal Year 2017 Budget Justification*, pp. 39-40, at http://www.fs.fed.us/about-agency/budget-performance.

[23] Center for Biological Diversity v. U.S. Department of the Interior, No. 10-CV-952 (D.D.C. *Complaint filed* June 7, 2010).

[24] Center for Biological Diversity v. U.S. Department of the Interior, No. 10-CV-952 (D.D.C. *Order filed* February 23, 2011).

State and Private Grazing Fees

The BLM and FS grazing fee has generally been lower than fees charged for grazing on other federal lands as well as on state and private lands. A 2005 Government Accountability Office (GAO) study found that other federal agencies[25] charged $0.29 to $112.50 per AUM in 2004, when the BLM and FS fee was $1.43 per AUM. While the BLM and FS use a formula to set the grazing fee, most agencies charge a fee based on competitive methods or a market price for forage. Some seek to recover the costs of their grazing programs. GAO also reported that in 2004, state fees ranged from $1.35 to $80 per AUM and private fees ranged from $8 to $23 per AUM.[26]

In 2010, when the BLM and FS fee was $1.35 per AUM, state grazing fees continued to show wide variation. They ranged from $2.28 per AUM for Arizona to $65-$150 per AUM for Texas. Moreover, some states did not base fees on AUMs, but rather had fees that were variable, were set by auction, were based on acreage of grazing, or were tied to the rate for grazing on private lands.[27] The average monthly lease rate for grazing on private lands in 16 western states in 2015 was $22.60 per head. Fees ranged from $12.00 in Oklahoma to $36.00 in Nebraska.[28] For comparison, in 2015, the BLM and FS grazing fee was $1.69 per AUM.

Comparing the BLM and FS grazing fee with state and private fees is complicated due to a number of factors. One factor is the varying purposes for which the fees are charged. Many states and private landowners seek market value for grazing. As noted above, PRIA established the BLM and FS fee in accordance with multiple purposes. They included preventing economic disruption and harm to the western livestock industry as well as being "equitable" and representing the fair market value of grazing. While the base fee originally reflected what was considered to be fair market value, the adjustments included in the formula have not resulted in fees comparable to state and private fees. According to GAO, "it is generally recognized that while the federal government does not receive a market price for its permits and leases, ranchers

[25] Other federal agencies covered by the GAO study included the Department of Energy, agencies (in addition to BLM) within the Department of the Interior, and agencies within the Department of Defense.

[26] GAO, Livestock Grazing: Federal Expenditures and Receipts Vary, Depending on the Agency and the Purpose of the Fee Charged, GAO-05-869 (Washington, DC: September 2005), pp. 37-40, at http://www.gao.gov/products/GAO-05-869.

[27] These figures and information are derived from an April 2011 study by the Montana Department of Natural Resources and Conservation. The report is at https://web.archive.org/web/20150301051054/https:/dnrc.mt.gov/Trust/AGM/GrazingRateStudy/Documents/GrazingReviewByBioeconomics.pdfhttp://dnrc.mt.gov/Trust/AGM/GrazingRateStudy/Documents/GrazingReviewByBioeconomics.pdf. In particular, Table 1 (p. 9) compares fees on state lands in 17 Western states.

It appears that more recent comparisons of grazing fees on state lands of all western states have not been undertaken or published. However, some studies in the past few years have addressed grazing fees in one or more selected states. See, for instance, Property and Environment Research Center, *Divided Lands: State vs. Federal Management in the West*, by Holly Fretwell and Shawn Regan (Bozeman, MT: February 2015), comparing grazing fees in 2013 for Arizona, Idaho, Montana, and New Mexico, pp. 14-16. Also, some state websites identify fees for livestock grazing on lands in the state. For example, see Colorado at https://www.colorado.gov/pacific/statelandboard/agriculture-3, New Mexico at http://www.nmstatelands.org/uploads/PressRelease/7c63bfca932547d89f9afbbc8739d0aa/Grazing_fees_2016_1.pdf, South Dakota at http://www.sdpubliclands.com/surface/auction.shtm, and Idaho at https://www.idl.idaho.gov/leasing/grazing/rate/index.html. The Idaho site also contains links to documents on grazing fees for other states, including Montana, Utah, and Washington.

[28] Statistics on grazing fees on private lands were taken from U.S. Department of Agriculture, National Agricultural Statistics Service, Charts and Maps, Grazing Fees: Per Head Fee, 17 States, January 2016, at https://www.nass.usda.gov/Charts_and_Maps/Grazing_Fees/gf_hm.php. Including Texas, the 17 state average fee was $20.10 in 2015. For many years, the National Agricultural Statistics Service has published fees for grazing on private lands.

have paid a market price for their federal permits or leases—by paying (1) grazing fees; (2) nonfee grazing costs, including the costs of operating on federal lands, such as protecting threatened and endangered species (i.e., limiting grazing area or time); and (3) the capitalized permit value."[29] Regarding the latter, the capitalized value of grazing permits typically is reflected in higher purchase prices that federal permit holders pay for their ranches.

A second factor is the quality of resources on the lands being grazed and the number and types of services provided by the landowners. For example, in its 2005 study, GAO noted advantages of grazing on private lands over federal lands. They included generally better forage and sources of water; services provided by private landowners, such as watering, fencing, feeding, veterinary care, and maintenance; the ability of lessees to sublease thus generating revenue; and limited public access. With regard to state lands, the study indicated that states also typically limit public access to their lands, while the quality of forage and the availability of water are more comparable to federal lands.[30]

A third factor is whether the federal grazing fee alone or other non-fee costs of operating on federal lands are considered in comparing federal and non-federal costs. Some research suggests that ranchers might spend more to graze on federal lands than private lands when both fee and non-fee costs are considered. Non-fee costs relate to maintenance, herding, moving livestock, and lost animals, among other factors. [31]

Grazing Without Paying Fees

Unauthorized grazing occurs on BLM and FS lands in a variety of ways, including when cattle graze outside the allowed areas or seasons or in larger numbers than allowed under permit. According to GAO, the frequency and extent of unauthorized grazing is not known, because many cases are handled informally by agency staff. However, during the five-year period spanning 2010 to 2014, BLM and the FS documented nearly 1,500 instances of unauthorized grazing, some of which involved the livestock owners having to pay penalties and, less frequently, livestock impoundment.[32]

In many cases the unauthorized grazing is unintentional, but in other cases livestock owners have intentionally grazed cattle on federal land without getting a permit or paying the required fee. The livestock owners have claimed that they do not need to have permits or pay grazing fees for various reasons, such as that the land is owned by the public; that the land belongs to a tribe under a treaty; or that other rights, such as state water rights, extend to the accompanying forage.

A particularly long-standing controversy involves cattle grazed by Cliven Bundy in Nevada.[33] After about two decades of pursuing administrative and judicial resolutions, in April 2014, the

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[29] GAO, Livestock Grazing: Federal Expenditures and Receipts Vary, Depending on the Agency and the Purpose of the Fee Charged, GAO-05-869 (Washington, DC: September 2005), pp. 49-50, at http://www.gao.gov/products/GAO-05-869.

[30] GAO, Livestock Grazing: Federal Expenditures and Receipts Vary, Depending on the Agency and the Purpose of the Fee Charged, GAO-05-869 (Washington, DC: September 2005), p. 49, at http://www.gao.gov/products/GAO-05-869.

[31] Neil Rimbey and L. Allen Torrell, *Grazing Costs: What's the Current Situation?*, University of Idaho, March 22, 2011.

[32] GAO, *Unauthorized Grazing: Actions Needed to Improve Tracking and Deterrence Efforts*, GAO-16-559 (Washington, DC: July 2016), pp. 12-13, at http://www.gao.gov/products/GAO-16-559.

[33] Except where otherwise noted, information in this paragraph was derived from the BLM website at http://www.blm.gov/nv/st/en/fo/lvfo/blm_programs/more/trespass_cattle.html and additional information provided by BLM to CRS on April 24, 2014.

BLM and the National Park Service began impounding Mr. Bundy's cattle on the grounds that he did not have authority to graze on certain federal lands and had not been paying grazing fees for more than 20 years. BLM estimated at that time that Mr. Bundy owed more than $1 million to the federal government (including grazing fees and trespassing fees) as a result of unauthorized grazing. However, the agencies ceased the impoundment of the cattle due to fears of confrontation between private citizens opposed to the roundup and federal law enforcement officials present during the impoundment. Mr. Bundy had not been paying grazing fees to the federal government primarily on the assertion that the lands do not belong to the United States but rather to the state of Nevada, and that his ancestors used the land before the federal government claimed ownership.[34] However, courts have determined that the United States owns the lands, enjoined Mr. Bundy from grazing livestock in these areas, and authorized the United States to impound cattle remaining in the trespass areas.[35] BLM continues to seek to resolve the issue through the judicial process.

BLM estimates that over the past two decades, the agency has impounded cattle about 50 times. The operation to remove Mr. Bundy's cattle from federal lands in Nevada was the biggest removal effort, in terms of the number of cattle and the area involved, according to BLM.[36] It was also one of the most controversial, in part because of the number and role of law enforcement officials and the temporary closures of land to conduct the impoundment.[37]

Voluntary Permit Retirement

There have been efforts to end livestock grazing on certain federal lands through voluntary retirement of permits and leases and subsequent closure of the allotments to grazing. This practice is supported by those who view grazing as damaging to the environment, more costly than beneficial, and difficult to reconcile with other land uses. This practice is opposed by those who support ranching on the affected lands, fear a widespread effort to eliminate ranching as a way of life, or question the legality of the process. In some cases, supporters seek to have ranchers relinquish their permits to the government in exchange for compensation by third parties, particularly environmental groups. The third parties seek to acquire the permits through transfer, and advocate agency amendments to land use plans to permanently devote the grazing lands to other purposes, such as watershed conservation.[38]

Legislation to authorize an end to grazing on particular allotments through voluntary donations of the permits by the permit holders has been introduced in recent Congresses. These measures generally provide for the Secretary of the Interior and/or the Secretary of Agriculture to accept the donation of a permit, terminate the permit, and end grazing on the associated land (or reduce

[34] See for example, CBS/AP, CBS News, "Nevada Rancher Cliven Bundy: 'The Citizens of America' Got My Cattle Back," April 13, 2014, at http://www.cbsnews.com/news/nevada-rancher-cliven-bundy-the-citizens-of-america-got-my-cattle-back/, and Jamie Fuller, "Everything You Need to Know About the Long Fight Between Cliven Bundy and the Federal Government," *Washington Post*, April 15, 2014, at http://www.washingtonpost.com/blogs/the-fix/wp/2014/04/15/everything-you-need-to-know-about-the-long-fight-between-cliven-bundy-and-the-federal-government/.

[35] For example, see July 9, 2013, and October 9, 2013, court orders on the BLM website at http://www.blm.gov/nv/st/en/fo/lvfo/blm_programs/more/trespass_cattle/public_notices_and.html.

[36] Telephone communication between BLM and the Congressional Research Service, April 23, 2014.

[37] Jon Ralston, "Former BLM Director: Bundy is Not a Victim but BLM Mishandled Roundup," *Ralston Reports*, April 14, 2014, at http://www.ralstonreports.com/blog/former-blm-director-bundy-not-victim-blm-mishandled-roundup.

[38] The third parties would not pay grazing fees under their permits if they opt not to graze during the amendment process, because fees are paid for actual grazing,

grazing where the donation involves a portion of the authorized grazing). Provisions authorizing such voluntary permit donations in specific areas have sometimes been enacted.[39]

Other bills have sought to establish pilot programs for livestock operators to voluntarily relinquish permits and leases in particular states. Still other measures have proposed allowing the Secretary of the Interior and the Secretary of Agriculture to accept a certain number of waived permits, such as a maximum of 100 each year. Under both types of measures, when the Secretaries accept waived permits, they are to permanently retire such permits and leases and end grazing on the affected allotments (or reduce grazing where the relinquishment involves a portion of the authorized grazing).

In earlier Congresses, legislation was introduced to *buy out* grazing permittees (or lessees) on federal lands generally or on particular allotments.[40] Such legislation provided that permittees who voluntarily relinquished their permits would be compensated at a certain dollar value per AUM, generally significantly higher than the market rate. The allotments would have been permanently closed to grazing. Such legislation, which had been backed by the National Public Lands Grazing Campaign, was advocated to enhance resource protection, resolve conflicts between grazing and other land uses, provide economic options to permittees, and save money. According to proponents, while a buyout program would be costly if all permits were relinquished, it would save more than the cost over time. Opponents of buyout legislation include those who support grazing, others who fear the creation of a compensable property right in grazing permits, some who contend that it would be too costly, or still others who support different types of grazing reform.

Extension of Expiring Permits

The extension, renewal, transfer, and reissuance of grazing permits have been issues for Congress. Both BLM and FS have a backlog of permits needing evaluation for renewal. For instance, the BLM backlog has been increasing for more than a decade, with a backlog of nearly 6,000 permit renewals as of September 30, 2015.[41] To allow for continuity in grazing operations, Congress had enacted a series of temporary provisions of law allowing the terms and conditions of grazing permits to continue in effect until the agencies complete processing of a renewal. The most recent provision, P.L. 113-291 (Section 3023), made permanent the automatic renewal (until the renewal evaluation process is complete) of grazing permits and leases that expire or are transferred.

Agency decisions regarding permit issuance are subject to environmental review under the National Environmental Policy Act (NEPA). That environmental review would include the identification of any additional state, tribal, or federal environmental compliance requirements, such as the Endangered Species Act (ESA), that would apply to a permitted grazing operation. P.L. 113-291 provided that the issuance of a grazing permit "may" be categorically excluded from this NEPA requirement under certain conditions.[42] Provisions regarding categorical exclusions have been controversial. Supporters assert that they will expedite the renewal process, foster

[39] See, for example, P.L. 114-46, Section 102(e), for certain wilderness areas in Idaho and P.L. 112-74, Section 122, for the California Desert Conservation Area.

[40] For example, see H.R. 3166 in the 109th Congress.

[41] DOI, BLM, *Budget Justifications and Performance Information, Fiscal Year 2017*, pp. VI0049-38 - VII-39, at https://www.doi.gov/budget. Charts in the document show grazing permits processed by BLM since FY1999.

[42] For information about the various levels of environmental review required under NEPA, see CRS Report RL33152, *The National Environmental Policy Act (NEPA): Background and Implementation*, by (name redacted)

certainty of grazing operations, and reduce agency workload and expenses. Opponents have expressed concern that categorical exclusions could result in insufficient environmental review and public comment to determine range conditions.

Author Contact Information

(name redacted)
Specialist in Natural Resources Policy
[redacted]@crs.loc.gov , 7-....

From: Russ Hendricks [mailto:rhendricks@idahofb.org]
Sent: Friday, December 01, 2017 4:55 PM
To: Comments <comments@idl.idaho.gov>
Subject: IFBF Grazing Review Comments

Dear Dept of Lands:

Attached are the comments of the Idaho Farm Bureau regarding the grazing rate discussion that the Land Board will be having next week at their special meeting on Dec. 5.

Please contact me if you have any questions.

Best regards,

Russ Hendricks
Director of Governmental Affairs
208-342-2688 | cell 208-869-0303
fax 208-342-8585 | rhendricks@idahofb.org

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November 28, 2017

Dear State Land Board Members:

On behalf of the more than 78,000 Idaho families who are members of the Idaho Farm Bureau Federation, we submit the following comments regarding the state grazing rate review; which has been conducted over the past two years.

A significant number of current state grazing lessees are Farm Bureau members, and many of our other members have close business ties with state grazing lessees. Our members appreciate the relationship they have with IDL personnel and state endowment lands. They believe they work well together to maintain and enhance these assets for the beneficiaries and that they pay more than a fair price for the forage they harvest.

Our members understand the Land Board's desire to review the current formula after nearly 25 years of service to ensure it continues to function appropriately and as designed. Unfortunately, despite overwhelming support from the current lessees and the public to retain the current formula during the two comment periods, there seems to be an effort to downplay some data and over-emphasize other data. This appears to be an attempt to demonstrate a plausible need to move forward with a change to the formula.

There are the two main reasons we have been told explaining why the current formula is no longer viable and why a new formula must be adopted:

1. State lease rates have not "kept pace" with private lease rates over time. – The graph in the Policy Analysis Group (PAG) report depicts that state lease rates are not rising as rapidly over time as private lease rates in Idaho. This is the main argument for a change in the state formula; as if there has always been an expectation that this should happen under the current formula. However, there are three main reasons why this expectation is incorrect.

The first reason this explanation is incorrect is that the State Land Board fully discussed using a percentage of private lease rates during the three-year process when the current formula was adopted back in the early 1990s. Other states use a similar method to establish state lease rates, and the State Land Board was fully aware of this option at that time. In fact, the State Land Board had itself previously used this method to calculate grazing rates. However, the Land Board wisely rejected this option. Therefore, from this fact alone we can ascertain that there was not then, nor should there be now, any expectation the state lease rates would parallel the private lease rates over time. If that was the expectation, why use a complex formula at all instead of simply setting a percentage of private lease rates as had previously been done?

Second, back in 1993, the Land Board was fully aware that there are additional expenses for grazing on any lands over-and-above the actual lease price. As the data in the PAG report shows, the total cost of grazing on state lands is higher than grazing on private lands when these "non-fee" grazing expenses are added-in. The State Land Board recognized these non-fee expenses can and do change over time and that a set percentage of the private lease rate is an imprecise and unfair way to determine the proper value of the forage that is harvested. They chose instead to use a formula which recognized the relationship between the price of beef, the price of other inputs into the operation and the private lease rates as a more appropriate and fair way to approximate the forage value.

This concept is more clearly depicted in the two documents we have attached to these comments. The table simply adds the grazing lease fees to the non-fee expenses listed in the PAG report to demonstrate that it is already more expensive to graze on state lands, despite the lower lease price. The graph visually illustrates this additional expense is growing over time, making it clear it is not a bargain to graze on state lands under the current formula.

Third, by the very nature of the lease contract the state land Board has set up with lessees, the price of private grazing is guaranteed to rise at a faster pace than state lands. In a private lease, many “services” are included in the lease, while in a state lease, not only are these services not included, but the lessee is required to perform these tasks. This means the price of labor, which rises faster than the price of grass, is priced into the private lease; whereas the state lease requires a lessee to use his own labor. This is exactly why years ago full-service filling stations used to charge more than self-service filling stations. Therefore, by the very nature of the terms of the contract, you cannot expect the prices to rise at the same rate over time.

2. Since only a few parcels receive bonus bids, somehow the “market” is broken and the Land Board needs to intervene to “correct” the price. - Under this assertion, we have been told that the lack of competitive bids are due to a lack of access on many state parcels. IDL data shows 63% of state grazing parcels have either restricted access or no legal access, while 37% have full access. Therefore, if this theory is correct, we would expect nearly all parcels that receive competitive bids to be on those parcels with full legal access. However, of those parcels which do receive competitive bids, 37% of them have restricted access or no legal access at all, according to the PAG report.

This data seriously erodes the credibility of this assertion and points back to the more plausible explanation that the forage on the vast majority of parcels simply is not worth more than the current formula price.

The biggest problem the state endowment has is that most of it’s acreage is in scattered parcels which are checkerboarded across BLM, Forest Service and private lands. Those lands which have not been blocked-up are not worth much since they are not large enough to be economic units on their own, typically there is no water or other infrastructure and it must be used in conjunction with surrounding lands to be of any practical use.

For example, one section of 640 acres, if it is average range ground and can provide one AUM per 10 acres, will only feed 64 cows and calves for one month. It is not a viable option for a rancher to truck cattle to these scattered sections for such a small amount of feed, particularly when there are no corrals or water on these sections.

Furthermore, federal agencies will not allow different management of the state lands that are surrounded by BLM or Forest Service lands, unless the state section is fenced. This means a permittee who is paying roughly $1.84 per AUM on federally administered lands, is stuck paying $8.03/AUM on the state section within his allotment, even though the forage is no better and it gives him no advantage or benefit, except for some expensive feed.

In contrast, those relatively few parcels that have been blocked-up and are larger, with the infrastructure necessary to provide a self-contained economic unit, can work for multiple ranchers and are much more valuable. This is where the competitive bidding occurs since the size and amenities ensure the forage on those parcels is worth more than the minimum, formula price.

Therefore, we urge you to retain the current formula, which the data shows has worked effectively to ensure the forage is fairly valued, and has worked exactly as expected when originally adopted.

Our members oppose both recommendations suggested by the sub-committee. The revised status quo with the base fee of $2.00 to $2.58 would raise the fee by at least 20%, up to 50% over current fees. This is out of line with the value of the forage, and is utterly impractical. While beef prices are declining, input costs are rising, and margins are becoming even more razor thin; there is no way lessees can make these figures pencil out.

Additionally, neither of these options were even considered through this extensive process. The revised status quo was an afterthought after the subcommittee deliberations, while the increased base rate was an even later addition, which has had no serious or meaningful analysis by any stakeholders or participants.

The calf-crop share was discussed throughout this entire process. However, the original share as calculated by the subcommittee was 12%, not 13%. This is important because the subcommittee specifically documented two separate methodologies that both arrived at a 12% share. Later, without any explanation, the share was changed to 13%. This appears to be an arbitrary change with no supporting documentation. Even the PAG report mentions that the methodologies the Land Board has used in the past have yielded a 12% share.

There is also a great amount of concern that if the Land Board adopts the calf-crop share and the beef prices drop significantly, as has happened a number of times historically, the formula will derive a fee that is below the current formula price. Will the Land Board then determine the formula is somehow "flawed" and must be adjusted to result in a pre-conceived outcome?

One of the reasons a premium price is tolerated by lessees on state land currently, is they have some relative certainty about how the formula will work under certain conditions. A calf-crop share formula will be far more volatile and will be more difficult to predict. If lessees now have to add-in additional risk of wondering if, or when the Land Board will again change the formula because it is not behaving the way they want or expect, the higher total cost of grazing on state lands will then become even less palatable for ranchers.

If the Land Board insists on changing the formula and decides they will frequently review the performance of the formula to determine if it needs to be adjusted, they should only do so if there are well documented parameters and sideboards under which the review will take place, and which are known to all parties. If the formula is changed frequently, it is really just a disguise for the Land Board setting the result that they want. This again illustrates the futility of setting a "market" rate without allowing the market forces to work.

In conclusion, one of the experts the Land Board brought in at the beginning of this process, Dr. John Ritten of the University of Wyoming, cautioned the Land Board, "Don't pursue short-term profits at the expense of long-term returns. You must graze these lands to maintain the assets." His comment is right on target. If the Land Board alters the formula and raises the fee simply because it can, it runs the risk of many parcels no longer being grazed, and therefore no longer managed. This will result in a depreciation of the assets over time and can reduce long-term returns.

In the same meeting, Director Schultz also stated, "We are in the game" with our grazing revenues. He stated the returns of the grazing program are stable and are beating bond yields. It is a part of the diversification strategy of the trust assets.

Finally, it has been asserted that without a change the Land Board will be vulnerable for a lawsuit. However, this is a possibility no matter what action the Land Board takes. We are fully aware there are entities who assert the current formula is inadequate and have indicated they are willing to go to court if the formula is not adjusted to their liking.

We contend those entities will never be satisfied, even if the Land Board fully capitulated to their demands. We also firmly believe there is solid evidence, as demonstrated in these comments and the attachments, as well as within other public comments, that the current formula is appropriately valuing the forage. Ranchers can only afford to pay what the forage is worth to their operations. An arbitrary increase in state grazing fees will only exacerbate the price differential between the full cost to graze on private lands vs. state lands. At some point they will no longer be willing or able to pay the hefty premium for the "privilege" of grazing on state lands.

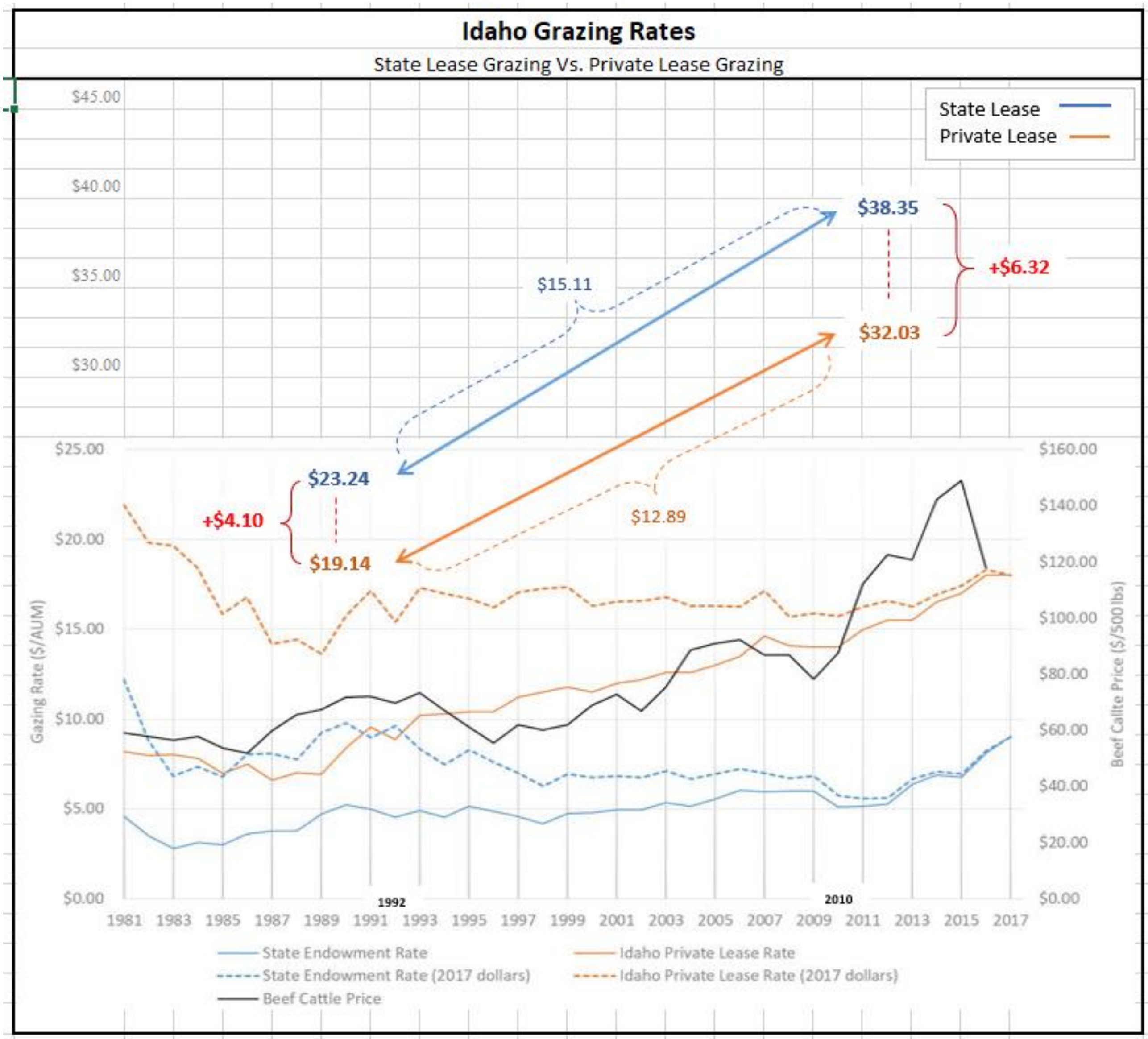
Governor Otter clearly alluded to this when he commented that the Land Board should do the right thing because it is the right thing, not because we are trying to prevent a lawsuit. Our members could not agree more. We believe retaining the current formula is the right choice.

Thank you for your consideration of our members concerns. If you have any questions, please contact Russ Hendricks in our Boise office at 208-342-2688.

Sincerely,

Bryan Searle

Bryan Searle, President
Idaho Farm Bureau Federation



Idaho Grazing Rates
State Lease Grazing Vs. Private Lease Grazing
State Lease
Private Lease
$38.35
+$6.32
$32.03
$15.11
$23.24
+$4.10
$19.14
$12.89
$45.00
$40.00
$35.00
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
Gazing Rate ($/AUM)
$160.00
$140.00
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
$0.00
Beef Callte Price ($/500lbs)
1992
2010
1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015 2017
State Endowment Rate
State Endowment Rate (2017 dollars)
Beef Cattle Price
Idaho Private Lease Rate
Idaho Private Lease Rate (2017 dollars)

Table 3. Summary of Non-fee Grazing Costs, 1992 and 2010.

Cost item	1992 Public Cattle	1992 Private Cattle	2010 Index	2010 Public Cost	2010 Private Cost
Lost animals	$3.65	$2.10	1.35	$5.21	$2.92
Association fees	$0.48	$ -	1.95	$0.83	$ -
Veterinarian	$0.10	$0.12	1.92	$0.22	$0.25
Moving livestock	$3.35	$1.93	1.53	$5.36	$3.05
Herding	$4.31	$2.94	1.92	$9.33	$5.67
Salt and feed	$1.29	$1.80	1.62	$2.15	$2.85
Travel	$0.69	$0.18	2.11	$1.47	$0.42
Water	$0.39	$0.11	1.95	$0.76	$0.23
Horse costs	$0.31	$0.15	2.10	$0.69	$0.33
Maintenance	$3.18	$1.84	1.80	$5.48	$3.38
Dev. depreciation	$0.45	$0.15	1.95	$0.83	$0.31
Other costs	$0.34	$0.11	1.95	$0.90	$0.27
Total non-fee costs	**$18.54**	**$11.43**		**$33.23**	**$19.68**
Lease rate	**$ 4.70**	**$ 7.71**		**$ 5.12**	**$12.35**
Total grazing costs	**$23.24**	**$19.14**		**$38.35**	**$32.03**
State L. vs. Private L.	**+ $4.10**			**+$6.32**	

From: Brody Miller [mailto:brody@wolfepacpellets.com]
Sent: Friday, December 01, 2017 8:16 PM
To: Comments <comments@idl.idaho.gov>
Subject: State Lands Grazing Rate

Dear State Board of Land Commissioners,

I appreciate the opportunity to submit comments with hope that you will consider our thoughts as it pertains to the State Lands Grazing Rate.

In 2014, Governor Otter launched his "Accelerate Idaho" initiative where the "State will engage local communities and private industry in helping to make Idaho a national and global leader in economic growth and prosperity." Under "Accelerate Idaho", energizing existing industries and strengthening communities were key to this initiatives success.

The Grazing Rate Subcommittee has brought forward two alternatives that are conflicting to the Accelerate Idaho initiative: 1) Price Index Approach - Revised Status Quo (RSQ) with a base fee of between $2.00 and $2.58 and 2) Contributory Share Approach - Calf-Crop Share with a 13% state share. Looking at these two proposals it will require more from an industry that is already experiencing tight margins. Add this increased fee to the increased brand inspection fee we experienced this year and you can see how these added expenses continue to chip away and erode these margins. This is not and will not energize the cow/calf industry nor is it creating opportunities for ranchers.

In order to have strong communities and great schools for our children throughout rural Idaho we must help local businesses by allowing them an opportunity to prosper. Our Nation has flourished because of our natural resources. New wealth is generated from the ground and as farmers and ranchers we recognize this. I am grateful for the opportunities we have to work with federal, state and private land managers to maximize these resources in order to do our part in helping generate a thriving local economic engine, and strengthening and empowering our communities and those who call it home.

At public hearings and through the comment process citizens from these rural communities had a chance for their voice to be heard. A public review and comment summary provided by the Idaho Department of Lands states: "Overall, 86% of commenters support Alternative #1, Status Quo, with 16% supporting a change to the current lease rate formula."

If you're only going to considering the 31 comments from "grazing lessees", only 2 of the 31 lessees are in favor of the two proposed alternatives. It cannot be assumed those supporting the "revised status quo" with a $1.70 base value would support the "revised status quo" with a minimum of a $2.00 base value. As a citizen believing I have a voice, I are alarmed with the considered proposals that had a total of 3 supporters.

In the summary provided by the Department of Lands, "grazing lessees" are highlighted as if their opinion should be considered more than mine. To only consider lessee comments is troubling when there are comments from farmers and ranchers that someday may seek to obtain a state lease.

In conclusion, I again appreciate the opportunity to comment. I hope you will consider my thoughts. Like Governor Otter, I support strengthening Idaho's rural communities by keeping businesses strong and viable. Changing the grazing fee formula and imposing the ever increasing fiscal demands on the farmers and ranchers of this great State will not help our rural communities and schools and will not Accelerate Idaho.

Sincerely,

Brody Miller

Sent from my iPad

From: Kirk Chandler [mailto:kchandler@co.washington.id.us]
Sent: Sunday, December 03, 2017 9:11 PM
To: Comments <comments@idl.idaho.gov>
Cc: Betty Thomas <wcclerk@co.washington.id.us>
Subject: Grazing formula change

State Land Board,

I am a rancher north of Weiser and also a county commissioner for Washington county. I would like to address this issue from both perspectives. First from the rancher point of few. The grazing formula for the state grazing leases have been in place for many years and it goes up and down with the economy. The state lease rates are higher than federal lands. When we lease ground from the state we manage and take care of it for the state. If I were to put my cattle on private land the land owner does the maintenance and management of the land and it is reflected in the price, therefore the lease rates are higher depending on the land owners management. The state depends on the grazing of state lands to help manage and clear the undergrowth and fertilize the forest ground that the cattle and sheep graze. I was talking to a range con in our area and I asked him why the state land dept. could put out the fires in their area and keep them small. He told me, Have you seen those state lands, they graze them and they log them and a fire can't even carry across them. This fact that the fires have a hard time burning across state land is because of the grazing that the ranchers provide. It is an asset to have the cattle there to protect the timber which is the biggest share of the money coming in from the state lands. In the reports we get the grazing is only 2% of the income, yet is vitally important to the management of our state lands. The raising of fees to graze that land is going to affect over 1,100 ranchers in our state. It will affect their ability to make a living so they can participate in the growing economy in our state.
On the county side, we assess taxes in our county on a cost/income study. We send out questionnaires to the ranchers and farmers requesting information on their costs of production and the prices they receive for their crops and livestock. A raise in state leases will increase the costs and lower the amounts that the county can assess on private grazing lands in our county. In the long run it will cost the counties tax income and make it harder to raise the money needed to provide services that we are required to provide by state code.

Thank-you,

Kirk Chandler, rancher and commissioner