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APRIL 1, 2005

Oregon Department of State Lands

Rangeland Grazing Fee Advisory Committee Meeting

April 1, 2005
The Riverhouse, Bend, Oregon

Summary

Present: John Lilly, Chair; Dan Nichols; John Tanaka; Larry Larson; Diana Oberbarnscheidt; George Grier; Tom Clemens; Joe Flynn; and Martin Andre.

Other DSL Staff Present: Steve Purchase, Nancy Pustis and Randy Wiest.

John Lilly opened the meeting at 10 a.m. and thanked the Committee members and staff for their attendance.

The meeting summary from the February 25 meeting was accepted.

Randy Wiest handed out a chart showing the period of use of each leasehold and the types of stock raised by the lessee (i.e. cow/calf, yearlings). *(See attachment.)* The chart shows that the majority of DSL leaseholds are being used as a part of a cow/calf operation. The period of use during the year varies. Larry noted that 53% of the grazing is occurring when the nutrient value of the forage is at its lowest (2-4% protein). George noted that the acres/AUM is a low ratio averaging 8 to 9.5 AUM's per acre. A discussion ensued over the variable nature of the forage productivity of the state land and its comparison with other states, particularly Colorado.

Dan Nichols handed out a chart *(see attachment)* showing several factors including the average sale price of 500 to 600 pound steers in 2004 for a variety of western locations (e.g. Phoenix AZ, Fallon NV, Ft Collins, CO and Klamath Falls); the 2002 per capita income for the Southeast Oregon counties; and the Top Ten Stressed Counties in the West. The data shows Oregon beef to be selling in Klamath Falls at or near the lowest price; per capita income to range from about $18,000 (Malheur) to just more than $22,000 (Harney); and many of the eastern Oregon counties are among the top 50 stressed counties with Malheur at number 4.

Tom Clemens explained research that he conducted on private land grazing lease rates. Tom handed out a summary of the work *(see attachment)* and referred to a map that showed the general area of the sample and their proximity to state leaseholds. Tom found 20 private leases in Harney County ranging in size from 80 to 1480 acres; the average lease rate was $11.17/AUM. Two leases in Lake County came in at $10/AUM; six leases in Crook County averaged $11.87/AUM and one in Jefferson County for $13/AUM. Three Klamath County leases covered between 40,000 acres to 90,000 acres at a cost of $10/AUM. Tom said that his research revealed that the reported rates do not fluctuate much from year to year. No information was presented as to what, if any, services beyond access to forage and water, were provided to the lessee by the lessor. Dan and Larry observed that the size of the leases in Harney County were not comparable to the state leaseholds.

The Committee turned its attention to recording each member's views as to the current formula. John Lilly asked each member to respond to the following question: Does the current grazing fee formula reflect fair market rental value? The Committee members responded as follows:

John Tanaka
Yes. The State Share (20%) may not be appropriate; the formula allows the fee to fluctuate with the calf price market and the ability of the lessee to pay the fee.

Larry Larson
Yes. The lessees think so; the State hasn't established their share. The State may be getting more than it should. Its unclear how to figure the State share to get to the 20%.

Martin Andre
Yes. The current formula is OK but factors may need to be looked at, particularly the State Share (20%). The Weight Gain factor may be too high. The formula is working for the State; DSL is getting more for the land. Concerned about loss of lessees (family vs. corporate ranches).

Diana Oberbarnscheidt
No. The current formula does not provide fair market value. There is no recent data/information to validate the factors, particularly Weight Gain. Factors may be too low. Calf price is not good indicator. The land produces forage. Fair market value of private leases seems better source of value; the private lease value may need to be discounted to account for differences between state and private lease arrangements.

Joe Flynn
Yes. Formula is working fine because it captures increase in market. Need to consider location, access and water as they affect value of lease.

George Grier
No. The current formula does not reflect fair market value. It could but it's too difficult to get reliable data and to make it defensible. Fair market value based on the private lease grazing rates is more defensible. Big concern: ranching is important to local economy; the sale of the lands may have negative effect on community.

Tom Clemens
No. The current formula does not reflect fair market value. Private lease grazing rate information is reflective of the market. The testimony of the GI Ranch manager was persuasive. The formula put the State in the cow/calf business.
Best approach is to use private land grazing lease rates factor in a discount adjustment based on fencing, water etc. as per Joe Flynn's ideas. This is a more defensible approach.

Dan Nichols
Yes. It's a good formula. Some factors may need to be reviewed based on more data. May be the State needs a base rate or floor where the rate will not be less than a certain amount. Others who use public land should pay, too.

John Lilly
Concerned about the defensibility of the current formula; not easy to understand/defend/explain. Need to update and validate factors with more current information; need data not just "best professional judgment". Using comparable private grazing land lease rates with adjustment seems more reliable/defendable

The Committee continued the discussion and reached the following agreements:

Agreement: If we stay with the current formula, we need to validate, through research, the factors for Weight Gain, Marketable Calf Crop and State Share. There would need to be agreement on the methodology as well as how the results would be used.

Agreement: There is no objection to the current method of compiling the calf price factor in the formula.

Agreement: If we used the private land grazing lease rates approach to establish the grazing fee, how would we develop the fee and the discounts?

- Adjustment factors could include presence of water and services provided by the landlord or lessee
- Adjustments could be made based on 1991 Colorado study
- Used expanded USDA survey with follow up to increase response
- DSL compile by independently researching private land lease rates for lads in vicinity of state leases.
- Offer "vacant" state leases through competitive bid to establish market price.
- Compile information about value of current state grazing lease subleases.

Agreement: The best argument that the current grazing fee formula reflects fair market value is:

- It is what the buyer is willing and able to pay.
- It represents the relative value of what is being produced on the land.

Agreement: Open public access to state-owned leased land negatively affects lessees by increasing their costs of operation/management and their risk and liability. For example, lessees have to chase cattle let out through open gates/ broken fences. Recreationists can introduce weed seeds into leaseholds through the use of stock or OHV's.

- The possibility needs to be explored of closing lands to public access and/or providing for controlled or regulated hunts to lessen the management costs of lessees. These actions may create more highly valued leases.
- The possibility of charging for access including a fee (pass) for OHV use needs to be explored.

Agreement (?): DSL range managers reserve about 25% of the forage for wildlife. There may need to be a way to capitalize this lost opportunity to increase cow/calf AUM's.

Discussion (No decision):
Establish a base fee to which the grazing fee would not fall below. Suggestions:
- $4.25 per AUM
- Not more than 10% drop per year

Establish a maximum or "cap" for the annual increase in the fee.

There was discussion as to the lack of consensus among the Committee over the acceptability of the current formula and the proposal to replace it with another based on comparable private land lease rates. The Committee asked John to discuss the matter with Director Hanus before the next meeting and to bring a report back in May.

The next meeting was scheduled for Bend on May 6. John agreed to continue to prepare a draft of the final report for discussion at the next meeting. The next draft will include the areas of agreement.

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Department of State Lands

News Release

05-16

March 18, 2005

For more information:
Monte Turner
503/378-3805 ext. 247

Rangeland Grazing Fee Committee to discuss preliminary recommendation

Advisory group meets April 1 in Bend

Members of the State Lands Rangeland Grazing Fee Advisory Committee will discuss a preliminary recommendation on grazing rates for state land at a meeting Friday, April 1, in Bend.

The meeting begins at 10 a.m. in the Metolius Room at the Riverhouse Resort, 3075 N. Business 97. Committee members will review information presented during previous meetings and information developed since the last meeting. They will consider various concerns and options regarding grazing rates. A limited public comment period will begin at 1 p.m.

An audit from the Secretary of State's Audits Division released in early 2003 recommended that DSL review the formula used to establish grazing fees at least every three years. Committee members will provide recommendations to DSL Director Ann Hanus and the State Land Board by next summer regarding whether the current formula generates fair market value. If the committee recommends changes, the agency would conduct a public rulemaking process, which includes public meetings and final approval by the State Land Board.

Director Hanus named the eight-member advisory committee in September. The committee includes members with interests or expertise in agricultural economics, rangeland science, public interest, local government and education beneficiaries. Two current rangeland lessees also serve as members.

To receive agendas for meetings of the advisory committee, contact Nicole Kielsmeier, Department of State Lands, Policy & Planning Division, 775 Summer St. NE, Suite 100, Salem, OR 97301-1279. She also may be reached at (503) 378-3805 ext. 239 or e-mail: Nicole.kielsmeier@dsl.state.or.us.

The state-owned rangelands are the largest block of land remaining from a grant of land by the U.S. Congress to support schools when Oregon became a state. The Oregon Constitution dedicated the school lands and their mineral, timber and other resources to the Common School Fund. Twice a year, the State Land Board distributes investment earnings from the fund to counties for school use.

DSL

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Oregon Department of State Lands
Grazing Fee Advisory Committee Meeting
April 1, 2005
10 A.M. to 3 P.M.
Metolius Room, Riverhouse Resort
3075 N. Business 97
Bend, Oregon

10:00 AM Welcome/Opening Comments — John Lilly, Assistant Director, Chair

Introduction of Committee Members — Committee Members

Review of January 21 Meeting Summary
Review of February 25 Meeting Summary

Continued Discussion of "Questions" of Issues/Concerns/Options

Development and Discussion of Preliminary Committee Recommendation

1:00 PM Public Comment

Next Steps
Plans for April 29 Meeting (Lakeview?)

Note: Lunch will be provided to Committee members and staff.

	Acreage	AUM's	Pastures	Livestock	Season
Totals	540,459	56,379	151		
Ave leasehold	12,569	1,311	3.5	Cow Calf	early growing

C/C = Cow Calf
H = Horse
B = Bull
R/R = Rest Rotation- where 1 pasture is rested every year from livestock grazing

Grazing use was taken from Rangeland Management Plan established for most all leaseholds.

Average grazing dates was taken from actual use reported for each leasehold. This is an average of the last 5-years reported.

Randy Wiest, DSL 4/1/05

South/East Oregon Rangeland leases

Harney County:
average range

Lease #	#acres	Township	Range	$AUM
1	631	24	32	$11.90
2	560	23	33	$10.00
3	1480	22	30	$15.00
4	1270	23	30	$11.85
5	600	23	33	$10.00
6	1300	24	30	$14.54
7	160	23	32V	$10.00
8	160	23	32V	$10.00
9	538	26	31	$10.29
10	720	24	34	$11.11
11	95	23	33	$10.00
12	80	23	32	$8.00
13	160	24	32V	$12.00
14	160	26	30	$10.00
15	480	26	30	$11.00
16	630	25	33	$11.90
17	80	24	32	$11.44
18	160	25	31	$12.00
19	790	24	30	$12.00
20	520	21	32	$10.40
	10574			
		ave AUM		**$11.17**

Lake County:
average range

Lease #	#acres	Township	Range	$AUM
1		32	12	$10.00
2		32	14	$10.00
			ave	**$10.00**

Crook County:
average range

Lease #	#acres	Township	Range	$AUM
1	Southeastern Crook			$13.63
2	Southeastern Crook			$13.75
3	Southeastern Crook			$12.00
4	Southeastern Crook			$12.00
5	Southeastern Crook			$10.78
6	Southeastern Crook			$9.06
			ave	**$11.87**

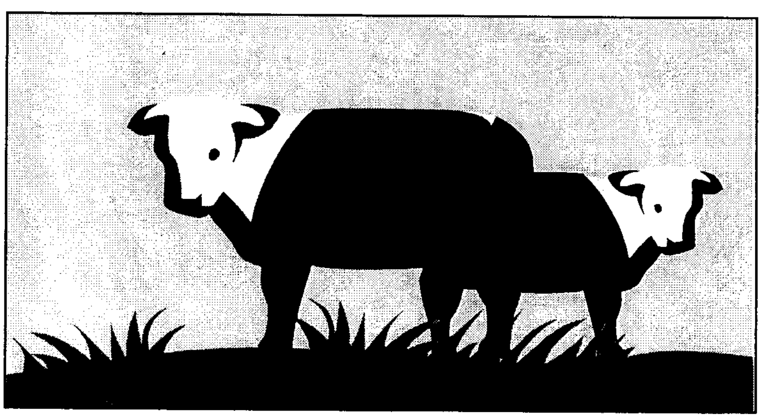
Klamath County:
average range

Lease #	#acres	Township	Range	$AUM
1	40k	33	13	$10.00
2	to	34	8	$10.00
3	90k	32	11	$10.00
			ave	**$10.00**

Jefferson County:
average range

Lease #	#acres	Township	Range	$AUM
	east Jefferson County			$13.00
			ave	**$13.00**

Overall South/East Oregon Rangeland Average AUM......... ...$11.18



Tom Clemons
4/1/05

STATE OF COLORADO
Board of Land Commissioners

Board Order No. 95-____

Re: Grazing Rental Rates

Date: October 25, 1995

cc: Commissioners
Surface Section
District Managers
Accounting

Decision: At its regularly scheduled meeting of October 25, 1995, the State Board of Land Commissioners reviewed the following information and approved the following actions:

BACKGROUND INFORMATION:

1. See the attached copy of the Board's action item dated April 13, 1995, including a copy of Board Order 93-217 dated August 11, 1993 and notes from joint meetings of the CCA State Lands Committee and representatives of the SLB.

2. See the attached copy of SLB Controller's report (9-20-95 by Ruth Kary) on the historic grazing rental rates and that rate which would have been in effect if the board had not suspended any increases during the period in which meetings and the survey work occurred (1993 & 1994). Also see attached Board Order #94-116.

3. The Colorado Private Non-Irrigated Grazing Lease Rate Survey 1995 is referenced as base data for the Land Board's grazing rental rate formula.

STAFF RECOMMENDATION:

Further, at a joint meeting between the Colorado Cattlemen's Association State Lands Committee and representatives of the State Land Board staff the following recommendations were put forth as a proposal for public input and board consideration:

A. Four grazing regions (rather than five) be adopted for use in the Land Board's grazing rental rate structure. Upon review of the private sector grazing rates, as summarized in the 1995 survey, it would not be efficient to breakdown the western slope into two grazing regions. The staff recommends using the lesser of the two market rates ($10.23/AUM) as the base rate for the western slope.

The other three districts recommended for implementation are the northeast, the east central and southeast districts as indicated on the inside cover of the 1995 grazing survey. The base rates prior to applying a 35% credit as indicated in Item B below are $13.32, $12.57 and $11.59 respectively.

B. Continue the 35% credit for fence maintenance, water system maintenance, credit on investment for fences and water system development and other associated lessee costs. The work group from CCA and the State Land Board reviewed a variety of information regarding appropriate credits due lessees, including the 1991 "Costs of Grazing on Federal Lands and Private Leases, Colorado State University, and believes the 35% credit continues to be appropriate as a part of the Land Board's formula. Therefore, the staff recommends that the Board not implement its intended decrease to a 25% credit.

Therefore, the grazing rental rate formula for the Colorado State Board of Land Commissioners for state school and other trust lands would be:

Regionally surveyed, private sector rates (as surveyed every third year) minus a 35% credit (fence maintenance, water system maintenance, a credit on investment for fence construction and water system development and other miscellaneous lessee costs) equals the state land board regional grazing rental rate.

C. Phase in the regional rates equally over a three year period since the initial transition to fair market value for grazing rates represent significant increases to the board's lessees and because the implementation of the new rates comes at a time when the livestock industry has seen 30 to 35% reductions in calf prices over the last two years.

Surveys will be done every three years in order to capture changes in the private sector market rates. It is anticipated that after this initial transition grazing rental rates will only change every third year in order to minimize survey costs and to provide stability in rental rates for lessees.

See the attached Grazing AUM Rates spread sheet dated 10\11\95 by Ruth Kary for a summary of the 1996, 1997 and 1998 grazing rental rates by region.

D. Recommended Public Process for lessee and citizen in-put

1. Conceptual approval by the State Board of Land Commissioners on October 25th, 1995 for the purpose of seeking in-put on the grazing rental rate proposals.

2. News release distributed to livestock trade papers, and regional newspapers. Newsletter mailed to all grazing lessees.

3. Public comment period scheduled (up to 30 to 60 minutes) at the November 8, 1995 board meeting.

4. Presentation to the Colorado Cattlemen's Association on November 16th, 1995.

HAPPY EASTER

Snowboarding A novice learns skills at Bachelor kids' camp • D1 | **Hop into the fun** See a list of area Easter egg hunts, events • C1

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The Bulletin

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WEATHER TODAY
Breezy with periods of rain
High 56, Low 33
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As calving season continues, ranchers hope prices for cattle stay at current record highs.

Beefing up profits

Melissa Jansson / The Bulletin

Cattle rancher Mark Malott feeds a herd on Monday morning at his father's ranch in Powell Butte.

By Alisa Weinstein
The Bulletin

POWELL BUTTE — Rancher Mark Malott can't afford to get sentimental about his cattle.

If one of his cows does not have a calf at its side by summer, it is hauled to auction and sold for hamburger.

"I have all this economical input I'm putting into these cattle," said Malott, a second-generation Central Oregon cattleman. "The cow has to produce a calf, that's the profit."

In 2004, Oregon produced 603,000 head of beef cattle, a relatively small portion of the 33.06 million head produced in the United States, according to the U.S. Department of Agriculture (USDA).

Most Central Oregon cattlemen, including Malott, are cow-calf producers who make their living by selling calves to feed-yard operators or to meatpackers.

> *"Calving season is when all the work you put into your cows for the past year pays off."*
>
> **— Mark Malott, rancher**

Thanks to consumer demand for beef and restrictions on imports of cattle born in other countries, ranchers like Malott are commanding record-high prices for their product.

In 2002, a year before the discovery of a cow infected with mad-cow disease from Canada, producers were paid an average of 67 cents per pound for their cattle. In 2003, the year the Canadian border closed, the average price rose to 84 cents per pound. In 2004, it inched higher to 85 cents per pound. Two weeks ago, an industry tracking group, Cattle-Fax, recorded an all-time-high price for cattle of $1.31 per pound. That week, a buyer paid $715 for a 551-pound steer calf.

The increase in live cattle prices does not mean that U.S. ranchers are getting rich. The cost of running a cow-calf operation, including labor, land leases, fuel and transportation has also increased dramatically over the years, said Mark Malott's wife and business partner, Ann Malott, who keeps the books for the family ranch by hand.

In August, Ann projected fuel costs at $1.25 per gallon, but the actual price has doubled since then. Their operation has seven pickups and a cow truck on the road each day, traveling as far as 360 miles, said Mark.

See **Calves** / *A6*

Calves

During calving season, rancher is on call night and day for new moms

Continued from A1

The price of health insurance for his own family and his employees and their families goes up when they renew each year, he said. This year, they paid an employee a salary of $40,000, including insurance. Employees also each get a pickup, fuel and the opportunity to run cattle on Malott's land.

During calving season, from mid-February to late April, when pregnant cattle give birth, Mark drives through his herd every day to check for new calves and monitor the health of his animals. On a recent morning, as Malott's pickup bounced over open range near his Powell Butte ranch, he slowed to admire a Black Angus cow licking her newborn calf.

"It is an exciting time for cattle producers," said Malott, 43. Calving season is when all the work you put into your cows for the past year pays off."

Malott admits that running a attle operation has become a litle more profitable, rather than imply a labor of love. But he, nd other area ranchers, also said nat their continued success inges on two things beyond neir control: favorable market onditions and keeping conumers confident that the U.S. neat supply is safe.

'he market

On May 20, 2003, the United tates banned live cattle imports om Canada after bovine spongiorm encephalopathy, or madow disease, was discovered in a Vashington state cow that had een imported from Canada. It 'as the one and only case of BSE i the United States.

Once the Canadian border osed, the supply of cattle available to meatpackers and feedard operators in the United tates hit the lowest levels since 959, according to the USDA. /ith fewer cattle to go around, ices began to climb.

In December, the USDA announced plans to reopen the anadian border to cattle 30 onths or younger in March 005. Even if a calf is exposed to SE, the disease, which has a ng incubation period, would ot show up until the animal is ore than 30 months of age, id USDA spokesman Ed oyd.

While meatpackers and feedard operators cheered the SDA's decision, cow-calf proicers said that Canada had not adicated its mad-cow problem, id the move would endanger merican consumers and cattle erds.

The fight over the border has come the talk of the beef inistry, pitting ranchers against eat processors. Processors aim that the closed border is eply cutting their profits, forcg them to lay off workers or ose down.

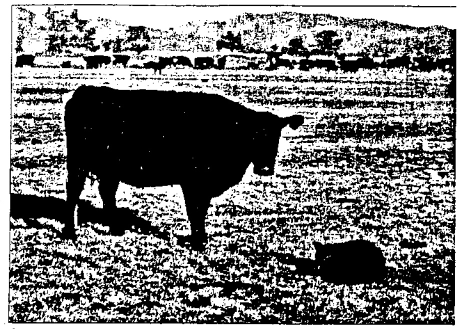
On March 7, a District Court dge in Montana granted the nprofit, national cow-calf ade organization, Ranchersattlemen Action Legal Fund, ited Stockgrowers of Ameri-, or R-CALF USA, a prelimiry injunction, keeping the borr closed.

"Thirty-three countries don't ke Canadian beef because of SE," said R-CALF USA spokesoman Shea Dotson. "(Opening e border) would turn the USA o a dumping ground for other ef products that the rest of the orld doesn't want."

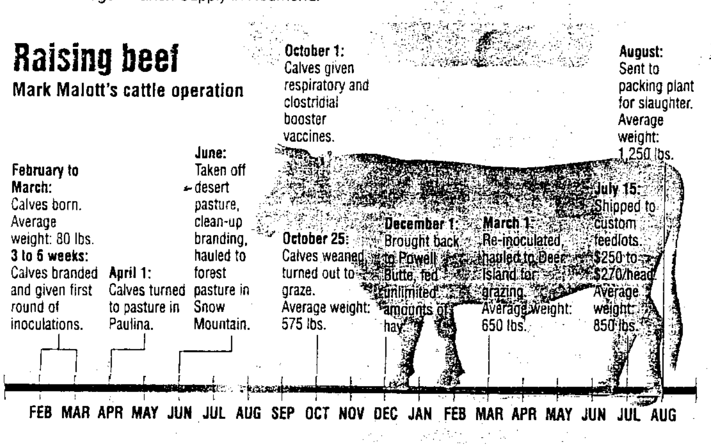
On March 17, the USDA filed appeal with the U.S. Court of opeals for the 9th Circuit, claiming that the agency's decision to resume trade of live cattle with Canada is based on a "multiyear, deliberative, transparent and science-based process."

Photos by Melissa Jansson / The Bulletin

Cattle rancher and feed store owner Mark Malott, center, hands paperwork to assistant manager Cindy Hightower while Mark's brother, manager David Malott, talks on the phone on Monday morning at Central Oregon Ranch Supply in Redmond.



A member of the herd stands with a newborn calf at the Malott ranch in Powell Butte.



Alisa Weinstein, Greg Cross / The Bulletin

> *"If we can keep any country that has a problem (with mad-cow disease) out of here until it's eradicated, it's going to keep consumers confident in our product."*
>
> **— Eric Duarte, auctioneer and rancher**

But Dotson said Canada has not tested for mad cow extensively, and there is no way that the USDA could know the prevalence of BSE in the Canadian herd.

"The USDA's mission is to protect not only the domestic agriculture industry, but to protect U.S. citizens from food harm that could come its way, and we feel that they're shirking their responsibility," Dotson said.

On a recent Wednesday afternoon at the Central Oregon Livestock Auction in Madras, auctioneer and rancher Eric Duarte said that cow-calf producers who want to keep the border closed aren't simply looking after their own pockets.

"Everybody thinks it's the greed of the cattlemen, but we have to sell our product," said Duarte, as he ate a hamburger after the close of the day's auction. "If we can keep any country that has a problem out of here until it's eradicated, it's going to keep consumers confident in our product."

Malott said he has mixed feelings about the border issue. While his increased income from high cattle prices has allowed him to pay down debt, he has also had to pay more for the feeder cattle he buys in Madras or by video auction, reducing his potential profit when he sells them for slaughter.

On the other hand, if U.S. consumers think they are at risk for mad cow, it would destroy the entire industry, Malott said.

"If you don't feel that your beef is safe to eat, you're going to pass it over and go to the chicken, right?" Malott said.

First-time moms

Malott does not sleep much during calving season.

As the designated "night calver," he wakes up three times overnight to check on the pregnant heifers in a fenced lot 100 yards from his house. "Sometimes the first-calf heifers need more help, just like any first-time mama."

One morning, he watched one heifer deliver its calf at 5 a.m. and then returned to the house for a cup of coffee and a quick rest on the couch. After a shower, Malott bottle-fed the three twin calves, because cows can only nurse one offspring adequately, checked the calf born at 5 a.m. and drove a quarter-mile to his father's farm to help him feed his cattle.

By 7 a.m., Malott began to make the rounds through his herds, checking for sick animals or new calves.

Malott said he loses fewer cattle now than he did 20 years ago, thanks to medical advances and experience.

Calves are particularly susceptible to pneumonia and dehydration, Malott said. Producers typically lose between three and five percent of their calves at birth, he said. So far this calving season, Malott has lost four calves.

"We rehydrate them and give them antibiotics and try to keep them going, but sometimes it doesn't work," Malott said. "Calving can be depressing when they die."

Malott runs his cattle on his 640 acres near Powell Butte and leases another 150,000 acres, including public land.

Malott has approximately 1,200 cows calving this spring, 250 of which are first-calf heifers. He also has a stocker operation, consisting of 1,000 yearlings from last year's calf crop and 1,000 cattle purchased at auction from other producers.

He breaks his cow herd into smaller groups by age and body condition — the young, fast cows graze separately from the middle-aged cows — so they are not competing unfairly for food. Stocker cattle are sorted by size and sex and whether they are generic or natural beef cattle.

The majority of the cattle born on Malott's ranch are part of the Painted Hills Natural Beef program. The beef is considered natural because cattle in the program are never given antibiotics or growth hormones.

If Malott has to doctor a calf, it is tagged as having been treated and taken out of the program and put into a generic beef market, he said.

Malott fattens the natural beef cattle in Painted Hills-approved feedlots. In return, the natural beef company buys the cattle at a premium, he said.

"We know the entire history of these cattle — where they were born, the inoculation and vaccine program they've been on, their feed program, everything," Malott said. "It is like buying a used car. You would pay more if the owner knew everything that had happened to it."

Malott keeps between 100 and 250 of his best calf heifers to replenish his herd, depending on the market. In 2004, he kept 178, he said. The best animals are triangular in shape, less broad in the front shoulders and thicker toward their hindquarters. Their backs should be straight and broad, he said.

"It's part eye-appeal," said Malott. "They will birth calves similar to themselves and you don't want a heavy front shoulder because you want them to calve easily.

"You also want them to have a nice hindquarter and top because that's where all the high-value cuts of meat are," he said.

When calving season is over, Malott estimates that he will have 1,100 calves. In the fall, he and his wife will look at their finances to decide how many calf heifers they will keep from this year's crop.

Starting small

Malott never intended to get into the cattle business.

After graduating from Redmond High School in 1980, Malott went to Central Oregon Community College, where he played basketball and studied to become a math teacher.

He planned to attend the University of Oregon in Eugene, but when he could not come up with the tuition, he went to work for the family business, Central Oregon Ranch Supply on Highway 97 in Redmond.

In 1984, Malott decided he wanted more. He put a $3,000 cash advance on his credit card toward 24 bred cows worth $10,000. When the cattle market became depressed in 1988, Malott asked his local bank for a loan to buy another 200 bred cows.

"I lived in an apartment, I had a pickup and a couple of saddle horses, but (the loan officer) believed in what I had to say and she loaned me the money," Malott said.

In 2004, Malott enjoyed his best profit margin in a decade. If the Canadian border reopens, he said he doesn't anticipate a dramatic change in cattle prices.

"I expect a short-lived emotional jerk in the market, but I don't expect the doomsday that everybody else is talking about," he said. "I expect an emotional reaction to the opening, but I don't think it will change the fundamentals, personally. Markets are based on emotion, so you never know where emotions may take the market."

But if the border reopens and the trading of Canadian cattle resumes, Malott said the USDA should take additional precautions to protect American c sumers and the reputation of U.S. beef supply.

Malott and other Central C gon producers said imported b — whether it enters the coun as packaged meat or an impor live animal — should be labe according to its country of orig That way, consumers can cho whether to pay a premium beef that has been born, bred a slaughtered in the United State

"When you pull your coat of says 'Made in China.' W shouldn't your meat be labe the same way?" Malott said.

Despite the ban on live Cana an cattle, 476,000 metric tons packaged Canadian beef w imported and sold in U.S. sup markets in 2004, said USDA o cials.

Because the USDA has mandated country-of-origin beling, however, suppliers a supermarkets do not have to consumers.

"It's choice beef that's comi in, but how many people do y believe know that since last J they've been getting Canadi beef in our beef chain?" Mal said. "I don't think they Everybody thinks the border closed."

The USDA will require cou try-of-origin labeling for impo ed fish beginning April 2005. similar rule for meat — schedul to take effect in 2006 — has be indefinitely postponed, sa USDA officials.

The rule would require me packers and distributors wi more than $230,000 in annu revenue to track and display t country of origin for all me sold. Those who do not comp would face fines of up to $10,0 for each violation.

"A lot of the retailers like Sa way, Giant, Wal-Mart and Cost are opposed because they're t ones that have to pay for ne computer systems to make su the labels are on there and trac ing systems," said USDA spoke woman Katherine Mattingly.

Mattingly said the addition cost of tracking the meat wou not drastically change the pri of beef, which must remain wit in a certain threshold to kee consumers buying. It would c into the profits of processors ar suppliers.

"Our food is safe, but you hav to know what you're getting Malott said.

For Malott, keeping the beef i dustry healthy is also a matter protecting the way of life l loves. Despite irregular wo hours, mounting expenses and volatile cattle market, Malott sa he and his wife would not consi er giving up ranching.

"You could sell our ground ar we'd be in pretty good shape, yo know what I mean?" said Malo who after checking his herd st had a full morning at the fami store ahead of him. "But that not what we want to do," he sai

"I want to keep this going fo my kids."

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Per Capita Income – 2002

Malheur	$18,608.00
Wheeler	$19,736.00
Baker	$21,424.00
Lake	$21,854.00
Crook	$21,859.00
Harney	$22,382.00

Top Ten Stressed Counties
Out of 104 Western State Counties

Malheur	#4
Klamath	#17
Wasco	#21
Sherman	#22
Morrow	#26
Grant	#27
Wheeler	#29
Wallowa	#31
Crook	#34
Lake	#35
Baker	#36
Harney	#38
Jefferson	#39
Umatilla	#45

Dan Nichols 4/1/05

AVERAGE PRICE OF 500-600# STEERS IN 2004

Phoenix AZ	Twin Falls ID	Clovis NM	Fallon NV	K Falls OR	Salina UT	Toppenish WA	Ft. Collins CO	Billings MT	Torrington WY	Month	OR Rank 1 –10 *
102.50	94.50	114.50	81.50	98.50	102.00	98.62	106.75	117.50	118.12	January	8
100.00	107.50	104.37	101.50	81.50	97.00	98.87	102.75	111.75	118.12	February	10
100.75	113.12	109.50	90.00	107.75	112.00	107.50	111.37	117.00	120.75	March	7
107.00	110.37	112.00	95.00	107.75	107.25	113.75	115.37	118.00	118.00	April	7
112.50	109.00	114.00	95.00	114.25	111.25	116.50	125.25	112.37	118.87	May	4
110.50	116.75	117.00	95.00	118.25	112.75	123.87	130.50	132.50	-----	June	5
115.50	120.25	120.00	95.00	117.50	118.00	120.00	-----	128.50	-----	July	8
121.75	118.75	126.50	95.00	113.50	120.50	117.25	141.75	127.50	-----	August	9
120.75	-----	118.00	96.50	119.00	116.50	118.00	121.00	119.75	116.50	September	5
115.50	119.00	121.50	99.00	114.75	114.25	118.75	124.50	119.00	125.12	October	9
113.50	113.75	118.50	99.00	109.25	113.37	110.50	116.00	120.50	123.00	November	9
99.00	100.92	104.50	85.00	100.75	100.75	101.87	104.75	102.50	105.50	December	8

* **Rank**: 1 = Highest Price; 10 = Lowest Price

From Dan Nichols
4/1/05

Committee discusses state grazing fees

5025

Group closer to recommending lease prices for ranchers on state lands

By Alisa Weinstein
The Bulletin

The members of Oregon's grazing fee advisory committee compared state grazing fees to higher fees charged by private lessors Friday as it moved closer to a recommendation on fair lease prices for ranchers who graze livestock on state rangelands.

The eight-member State Lands Rangeland Grazing Fee Advisory Committee convened at the Riverhouse Resort in Bend to continue its discussion of whether the formula used to calculate state grazing fees fairly approximates the open-market value.

According to research presented at Friday's meeting, private rangeland lessors in five counties in Oregon, including Jefferson and Crook counties, charge an average grazing fee of $11.18 per animal per month.

Private lessors may provide services to ranchers, including feeding animals or maintaining fencing, not provided by the state. In 2002, state grazing fees were set by the Oregon State Land Board at $5.03 per animal per month. The state formula to calculate fees considers factors including calf weight gain per month, state share of calf weight gain — set at 20 percent — and the average statewide sale price of calves.

The state fee formula has not changed since 1995, according to advisory committee documents.

> *"Figuring out which approach represents fair-market value, that is the penultimate."*
>
> **— John Lilly, chairman of the grazing fee advisory committee**

According to committee Chairman John Lilly, the state could stick with its formula approach or get in line with fees charged by private lessors, and use discounts to account for not providing the same services as private land owners.

"Either approach is defensible," said Lilly, committee chairman and Department of State Lands assistant director. "Figuring out which approach represents fair-market value, that is the penultimate."

Oregon has leased rangelands for livestock grazing since 1859, when the state joined the union. Funds generated by grazing fees go toward a $900 million Common School Fund, which supports Oregon K-12 public schools.

See Grazing / C4

Grazing

State-owned rangelands have lost money since 1987

Continued from C1

The State Land Board, consisting of the governor, secretary of state and state treasurer, is charged with managing rangelands to maximize long-term income for schools.

In 2004, the secretary of state's Audits Division recommended a review of the grazing fee structure after the state determined that the rangelands lost more than $13 million from 1998 to 2002, not including some wildfire suppression costs. State-owned rangelands have lost money since 1987, said the audit.

According to the audit, revenues from the land could be increased if the rangelands were sold in a competitive bidding process.

The committee must provide recommendations to Department of State Lands Director Ann Hanus and the State Lands Board by summer regarding whether the current formula generates fair-market value.

Despite the discrepancy between private and state rental rates, a majority of committee members said Friday that the state formula works.

Still, many agreed that the factors used to calculate state fees need to be reviewed and updated.

"We don't seem to be able to pin down evidence to substantiate the formula the way it is now," said Joe Flynn, a Plush rancher who also leases state land. "Wouldn't you want the equation to reflect what resources the land is capable of giving you?"

Those who disagreed said the state formula creates a steep discount on grazing fees that would not be defensible under scrutiny.

"We're discounting leases up to 50 percent. I'd have a hard time explaining that in court," said Tom Clemens, a committee member from Bend.

According to Lilly, the committee will begin putting together recommendations at its next meeting in April. If the committee recommends changes, the Department of State Lands would conduct a public rulemaking process, which includes public meetings and final approval by the State Land Board.

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5025

Grazing Fee Advisory Committee Meeting
April 1, 2005
Flip Chart Notes

Question: Does the current grazing fee formula reflect fair market rental value?

John Tanaka
Yes. The State Share (20%) may not be appropriate; the formula allows the fee to fluctuate with the calf price market and the ability of the lessee to pay the fee.

Larry Larson
Yes. The lessees think so; the State hasn't established their share. The State may be getting more than it should. Its unclear how to figure the State share to get to the 20%.

Martin Andre
Yes. The current formula is OK but factors may need to be looked at; particularly the State Share (20%). The Weight Gain factor may too high. The formula is working for the State; DSL is getting more for the land. Concerned about loss of lessees (family vs corporate ranches).

Diana Oberbarnscheidt
No. The current formula does not provide fair market value. There is no recent data/information to validate the factors, particularly Weight Gain. Factors may be too low. Calf price is not good indicator. The land produces forage. Fair market value of private leases seems better source of value; the private lease value may need to be discounted to account for differences between state and private lease arrangements.

Joe Flynn
Yes. Formula is working fine because it captures increase in market. Need to consider location, access and water as they affect value of lease.

George Grier
No. The current formula does not reflect fair market value. It could but its too difficult to get reliable data and to make it defensible. Fair market value based on the private lease grazing rates is more defensible. Big concern: ranching is important to local economy; the sale of the lands may have negative effect on community.

Tom Clemens
No. The current formula does not reflect fair market value. Private lease grazing rate information is reflective of the market. The testimony of the GI Ranch manager was persuasive. The formula put the State in the cow/calf business. Best approach is to use private land grazing lease rates factor in a discount adjustment based on fencing, water etc. as per Joe Flynn's ideas. This is a more defensible approach.

Dan Nichols
Yes. It's a good formula. Some factors may need to be reviewed based on more data. May be the State needs a base rate or floor where the rate will not be less than a certain amount. Others who use public land should pay, too.

John Lilly
Concerned about the defensibility of the current formula; not easy to understand/defend/explain. Need to update and validate factors with more current information; need data not just "best professional judgment". Using comparable private grazing land lease rates with adjustment seems more reliable/defendable

Agreement: If we stay with the current formula, we need to validate, through research, the factors for Weight Gain, Marketable Calf Crop and State Share. There would need to be agreement on the methodology as well as how the results would be used.

Agreement: There is no objection to the current method of compiling the calf price factor in the formula.

Agreement: If we used the private land grazing lease rates approach to establish the grazing fee, how would we develop the fee and the discounts?

- Adjustment factors could include presence of water and services provided by the landlord or lessee
- Adjustments could be made based on 1991 Colorado study
- Used expanded USDA survey with follow up to increase response
- DSL compile by independently researching private land lease rates for lads in vicinity of state leases.
- Offer 'vacant' state leases through competitive bid to establish market price.
- Compile information about value of current state grazing lease subleases.

Agreement: The best argument that the current grazing fee formula reflects fair market value is:

- It is what the buyer is willing and able to pay.
- It represents the relative value of what is being produced on the land

Agreement: Open public access to state-owned leased land negatively affects lessees by increasing their costs of operation/management and their risk and liability. For example, lessees have to chase cattle let out through open gates/ broken fences. Recreationists can introduce weed seeds into leaseholds through the use of stock or OHV's.

- The possibility needs to be explored of closing lands to public access and/or providing for controlled or regulated hunts to lessen the management costs of lessees. These actions may create more highly valued leases.
- The possibility of charging for access including a fee (pass) for OHV use needs to be explored.

Agreement (?): DSL range managers reserve about 25% of the forage for wildlife. There may need to be a way to capitalize this lost opportunity to increase cow/calf AUM's.

Discussion (No decision):
Establish a base fee to which the grazing fee would not fall below. Suggestions:

- $4.25 per AUM
- Not more than 10% drop per year

Establish a maximum or 'cap' for the annual increase in the fee.

DRAFT DRAFT DRAFT DRAFT

Preliminary: Subject to Change

Department of State Lands
2004-2005 Grazing Fee Advisory Committee
Draft/Final Report

Project Overview/Purpose

The Department of State Lands (DSL) manages about 640,000 acres of rangeland in Southeastern Oregon primarily in Lake, Harney and Malheur Counties. The lands are considered to be assets of the Common School Fund, a fund established at statehood to provide financial support for Oregon's public K-12 schools. The State Land Board (Board), consisting of the Governor, the Secretary of State and the State Treasurer, are the trustees of the Fund and direct the policies of the Department. Much of the land is leased for grazing. There are about 144 lessees each operating under contract with the Department and annually paying fees based upon the carrying capacity of the leasehold and a formula adopted by the Board and implemented by the Department. The last fee formula change was in 1995; the fee itself is adjusted annually in accordance with the provisions of the formula.

The Board establishes the grazing fee rate formula by rules. The formula is as follows:

AUM Rental Rate = G x CC x S x P
G = Animal gain per month
CC = Marketable calf crop
S = State share
P = Average weighted calf price

For the purpose of determining the base AUM rental rate, the following formula factors are used:
(a) Pounds of gain per animal unit per month (G) is fixed at thirty (30) pounds.
(b) Marketable calf crop (CC) is fixed at eighty percent (80%).
(c) State share of calf gain (S) is twenty percent (20%).
(d) Average weighted calf price (P) is based on USDA Oregon agriculture price data indicating the average statewide sales price of calves for the preceding one (1) year period based on an October through September year.

In 2004 the State's Audits Division released an audit of the Department's rangeland management program and observed that the grazing fee had not been periodically reviewed as required by the Board's rules. In addition the Audits Division recommended that the fee be increased to the approximate rates reported by the USDA paid by lessees for the use of private non-irrigated grazing lands.

The Committee and its Task

The Director of the DSL determined that the fee formula was in need of review. An advisory committee, representing various interests (the DSL, lessees, rangeland economist, rangeland scientist, local government official, public interests and school beneficiary), was appointed and convened by the Director.

The Committee consisted of the following members and their representation:

- John Tanaka, Oregon State University, Union, range economist
- Larry Larson, Oregon State University, La Grande, range ecologist
- Tom Clemens, Bend, public interest
- Martine Andre, Arock, lessee
- Joe Flynn, Plush, lessee
- Dan Nichols, Harney County Commissioner, Diamond
- George Grier, public interest, Springfield
- Diana Oberbarnscheidt, Bend, school beneficiaries
- John Lilly, Assistant Director, Department of State Lands

John Lilly also served as Chair of the Committee.

The Director sought recommendations from the advisory committee regarding the existing grazing fee formula. The Director plans to review the recommendations and report them to the Land Board along with the Department's recommendations for action. No new formula or fee for forage use of rangelands is to be imposed until the Land Board has approved a change in current formula.

The Grazing Fee Advisory Committee was asked to:

1. Review the audit report findings as to the grazing fee;
2. Analyze whether the current rate reflects at least a fair market value rental rate; and
3. Make recommendations to the Director concerning the fee formula.

Guiding Principles of the Committee

The Grazing Fee Advisory Committee, in deliberating over its tasks, was asked by the Director to adhere to the following principles with its recommendations:

1. The Land Board and Department of State Lands must obtain fair market value from the use of Common School Fund trust lands in order to meet fiduciary responsibilities; and
2. The Common School Fund trust lands must be managed to conserve the productivity and sustainability of the lands for the Common School Fund over the long term.

Committee Operations/Decisionmaking

1. The Chair fully participated in all discussions and ensured that:
   - Meetings were orderly, meaningful and stayed on schedule;
   - All members had an equal opportunity to participate in discussions and deliberations;
   - Meetings were scheduled to meet the time commitments of as many members as possible; and
   - The committee discussed work assignments and future agendas.

2. All committee meetings were conducted as public meetings. Advance press notices were sent out prior to each meeting. Notices were sent prior to each meeting to lessees and interested parties. Recordings of the meetings were kept and a summary of each meeting compiled and approved by the Committee. All work products are treated as public records.

3. The Committee allowed for public comment at each meeting. Often the public freely participated in Committee discussions.

4. The advisory committee was supported in its work by the staff of the DSL; and frequently sought the advice of staff.

5. If a member was unable to attend a meeting, the member was allowed to send an alternate to monitor the discussion and report meeting results to the absent member. Alternates were not permitted to participate in consensus discussions.

6. The Committee made its decisions by consensus. For this project, consensus meant that a member could "live with" the recommendation or decision and that the decision was, at a minimum, not inconsistent with the member's interests. When consensus was reached, it usually meant that the members would not work to block the recommendation or decision.

Description of Committee Work

The Committee held X meetings in three locations (Bend, Hines and XXX) over the X months of its operations (see schedule below).

(list of meeting dates, times, locations)

The Committee specifically invited public comment at its meeting on January XX, 2005 in Hines.

More to be added ....

Findings of the Committee

1. "Fair market value rental rate" means the rental income that a property owner would most probably command in the open market; indicated by the current rents paid and asked for comparable space.
2. Oregon's current (2005) grazing fee of $5.03 per AUM ranks as the fifth highest among nine western states (not including California); Arizona, New Mexico, Utah, Wyoming, Idaho, Montana, Washington and Colorado were surveyed. Colorado is the highest at $8.04; Arizona the lowest, $2.23
3. Of all the fee formulas used by the other states, USDA-NASS data (beef cattle pricing) is used by four states to establish the grazing fee.

4. Three states, Colorado, Washington and Wyoming) use NASS data on private non-irrigated grazing land leases to establish the annual grazing fee.
5. States using the NASS private lease information discount the fee to account for differences between private and state leases and the services provided by each. Colorado discounts 35%.
6. Some states base the fee on beef prices.
7. Colorado contracts with NASS to conduct a survey of private land non-irrigated grazing fees every 4 to 5 years. Over 2800 surveys are sent out.
8. Grazing lease contracts are similar from state to state.
9. Oregon rangelands have a carrying capacity of about 70,000 AUM's.
10. Oregon has 144 leases; 31 lessees pay the minimum rate because their leasehold is small and they run so few stock.
11. Oregon has five lessees that have subleased their leasehold to someone else. Subleases must be approved by DSL. 50% of any increased rent from the sublessee is due DSL; only one lessee reports additional fees.
12. DSL invested about $50,000 this past year on noxious wed control on rangelands.
13. Oregon is the only state to use a formula based on calf prices derived from sale data.
14. The Department's rangeland grazing management program costs more to operate than it produces in grazing fees.
15. Oregon's grazing fee has increased by XX% since the current formula was set in 1994. Prior to 1994, fees were $2.50 for 'wet" pasture grazing; $1.25 for "dry" pasture.
16. It is difficult to uniformly characterize the operations of current grazing lessees. Each operates their leasehold in accordance with their particular needs.
17. Not all lessees are selling calves as the current fee formula contemplates.
18. There are no current studies or data specific to DSL lessees that can validate the weight gain and survival factors of the current formula.
19. Lessees have varied rates of weight gain and survival; none report these factors to DSL. DSL has made no attempt to track this information for each lessee.
20. The Eastern Oregon Experiment Station's studies come the closest to corroborating the current fee formula factors for weight gain and survival.
21. There are a number of private non-irrigated grazing leases in the vicinity of the DSL leaseholds that are being leased at a greater value than the DSL land. Private fees appear to be in the range of $10 to $12 per AUM.
22. The marketplace tends towards negotiated grazing fees for private non-irrigated grazing rather than a percent of crop as the DSL formula does currently.
23. There is no public database or clearinghouse to readily find actual information about the price being paid for private non-irrigated grazing leases.
24. NASS data for Oregon on private land grazing fees is not statistically reliable enough to use for rate setting in the three southeast counties (Lake, Harney and Malheur).
25. NASS would conduct a more in-depth, reliable survey in the three SE counties if it is paid for by the DSL.
26. Setting fees via competitive bidding under the current DSL leases is not possible given the terms of the current leases.
27. Oregon's calves tend to sell for less than those raised and sold in the other western states (e.g. Colorado) because Oregon's crop is farther from the Mid-West feedlots.
28. DSL's lands are more similar to Idaho and Nevada in terms of climate and range productivity.
29. More...More....More.....More....

Conclusions and Recommendations

To be written......................

Outline for Draft/Final Report

2004-2005 Grazing Fee Advisory Committee
Oregon Department of State Lands

1. Project Overview/Purpose
2. The Committee and its Task
3. Guiding Principles of the Committee
4. Committee Operations/Decision making
5. Description of Committee Work
6. Findings
7. Conclusions and Recommendations
8. Appendices
   - Secretary of State's Audit
   - List of materials presented to the Committee
   - Committee Correspondence
   - Meeting Summaries