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MAY 6, 2005

DRAFT
Grazing Fee Advisory Committee Meeting Summary
May 6, 2005
Red Lion Inn-North
Bend, Oregon
10 a.m. to 3 p.m.

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

Staff: Nancy Pustis; Randy Wiest

Guests: Nathan Hovekamp

John opened the meeting at 10 a.m. He explained that it was his intent to make this the last face-to-face meeting if the Committee is able to come to agreement over the draft report and its recommendations. If not, another meeting will be held, probably in Burns. He also shared John Tanaka's email comments on the draft report.

Randy Wiest made a presentation about the extent of improvements on DSL rangeland. Many of the large leaseholds have fenced pastures with water available on the state land or from adjacent private or federal land. Lessees have responsibility to maintain the improvements. Martin Andre said he built a pipeline on his land and on the DSL leasehold with the help of OWEB funding. Well water is often generator driven as electricity is frequently not available. Randy said all seedings are fenced; most are vigorous; some need rehabilitation.

Dan Nichols said BLM permittees pay $2.80 per AUM to BLM for maintenance of pipelines, seedings etc plus 30 cents per AUM for electricity for pumps.

A wide-ranging conversation ensued about the draft report recommendations. John Lilly asked each member to respond to a series of questions concerning each recommendation and all responses were recorded as Flip Chart Notes (see attachment).

Nathan Hovekamp, member of the Bend-LaPine School Board, addressed the Committee and reminded the group of the purpose of the CSF lands and the critical needs of schools. He emphasized the need to produce revenue for schools without degrading the resource.

A date was set for the next meeting (if needed) for June 9 in Burns. John is to revise the report according to the recommendations of the Committee include any edits/comments and circulate it to the members for review. It was agreed that John may call another meeting if needed.

Department of State Lands
Grazing Fee Advisory Committee Meeting
May 6, 2005
10 a.m. to 3 p.m.
Red Lion Inn-North
1415 NE Third St
Bend, Oregon

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

Introduction of Committee Members — Committee Members

Review of April 1 Meeting Summary

Review and discussion of Draft Report

1:00 PM Public Comment

Next Steps

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

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LILLY John

From: Tanaka, John [john.tanaka@oregonstate.edu]
Sent: Wednesday, May 04, 2005 4:52 PM
To: LILLY John; Dan Nichols (E-mail); Dianna Oberbarnscheidt (E-mail); George Grier (E-mail); Larson, Larry; Tom Clemens (E-mail)
Cc: KIELSMEIER Nicole; PURCHASE Steve; PUSTIS Nancy
Subject: RE: May 6 Meeting

I apologize for not being able to attend the May 6 meeting. I am teaching a class and cannot get away. I would like to submit comments on the 4 options up for discussion.

Option 1 - This one really comes down to whether the fee that is derived from this reflects true market value (FMV) and helps in the conservation and sustainability of the land (the guiding principles of the committee). I think there are several points in here that are worth discussing. (1) Just as defining FMV is difficult when there is no market, defining sustainability is even harder. It is generally thought to include economic, social, and ecological dimensions. So with that in mind, the fee that is eventually settled upon must meet all 3 tests - economic in the sense meeting fiduciary responsibilities to the trust, social in the sense of the people and communities dependent upon the land, and ecological in the land and its resources. (2) We have been focusing on the factors in the current formula with one of those being weight gains of the animals while on state lands. There is another way to look at that factor. If a ranch is an integrated system where the number of cattle is balanced with the amount of forage available during each season, it could be thought of that the pounds of beef produced is just some % of the total based on the number of months of forage produced on state lands. For example, if the herd is on the state lands for 3.5 months, that is 3.5/12 or 29% of the year. If the calf weighs 500 lb at sale, then the amount of weight gain attributable to the state lands is about 145 pounds or 41 lb/month. This assumes that the state lands are critical to produce a calf and without it, either the calf would not be produced or it would weigh, on average, less. There are several issues with this kind of approach, and I am not necessarily advocating it, but it should be on the table. It does get away from discussions of forage quality on state lands, but rather looks at the whole year as being important to produce the product for sale. (3) There are modeling approaches to determining the value of state lands, but that could be part of the research conducted over the next few years if this option were recommended.

Option 2 - I believe you would also have to conduct research on this alternative if you wanted to be fair. The adjustment factor needs to be determined for southeast Oregon. I believe appraisers would also adjust the value based on the size of the lease, which should also be a subject of research or maybe there is a standard factor that is used. The last kind of research that may be required is the comparability of the private leases with the public leases in terms of forage value (quantity, quality, season of use, etc.).

Option 3 - I don't think this is feasible as it would require significant enforcement costs to close areas with any chance of being successful. I think the option should read more like Option 4 if it is to be retained. Also, the extra management costs are part of the adjustment factor in Option 2.

Option 4 - I think this fee would just be an add-on to OHV registration costs and dedicated to the CSF. It should be high enough to cover damages from OHV use and state costs of enforcement.

Again, I apologize for not making the meeting. Use or ignore my comments as you see fit.

John Tanaka, CPRM
Eastern Oregon Agricultural Research Center - Union Station
P.O. Box E
Union, OR 97883
(541) 562-5129

-----Original Message-----
From: LILLY John [mailto:John.Lilly@dsl.state.or.us]
Sent: Friday, April 29, 2005 1:23 PM
To: Dan Nichols (E-mail); Dianna Oberbarnscheidt (E-mail); George Grier (E-mail); Tanaka, John; Larson, Larry; Tom Clemens (E-mail)
Cc: KIELSMEIER Nicole; PURCHASE Steve; PUSTIS Nancy
Subject: May 6 Meeting

Nicole has sent out the meeting agenda and draft of the final report. If you didn't receive them let me (or Nicole) know. As you can see form the DRAFT recomendations, we are proposing some OPTIONS for the Committee to discuss and to see if we can get consensus around them. See you next Friday.

John E. Lilly
Assistant Director
Department of State Lands
775 Summer St NE
Salem OR 97301
503-378-3805 x 281

Close

From: KROFT Jeff
To: LILLY John
Cc: PUSTIS Nancy; WIEST Randy
Subject: Grazing Fee Summary
Sent: 5/5/2005 2:13 PM
Importance: Normal

John,

Here is the information you wanted concerning the grazing fee formulas DSL has used and the resultant fees>

SUMMARY OF CALF PRICES AND GRAZING FEE CHARGED BY DSL 1993-2004

GRAZING FEE FOR CALENDAR YEAR	CALF PRICE (P) PER 100WEIGHT	FEE/AUM
1993	$91.20	$2.50
1994	$83.30	$2.50
1995	$66.40	$3.33
1996	$52.70	$3.43
1997	$72.50	$2.62
1998	$76.00	$3.72
1999	$79.80	$3.81
2000	$75.80	$3.64
2001	$90.80	$4.36
2002	$94.20	$4.52
2003	$86.60	$4.16
2004	$89.99	$4.32
2005	$104.88	$5.03

NOTE: During the years 1993 and 1994, DSL did not use a formula to establish the grazing fee which was set at $2.50/AUM.

FEE FORMULAS USED

Formula Adopted in **July 1994**

G x CC x S x P

G (animal gain per month) = 30 pounds
CC (marketable calf crop) = 80%
S (state share) = 13.2% for CY 1994; 14.9% for CY 1995; 16.6% for 1996; 18.3% for CY 1997; 20% for CY 1998 and beyond
P (weighted calf price) - based on the average sales price received for weaner calves (steers and heifers) from Lake, Harney and Malheur Counties for the preceding five (5) year period based on OSU data.

Formula Adopted in **December 1996**

G x CC x S x P

G (animal gain per month) = 30 pounds **(stayed the same)**
CC (marketable calf crop) = 80% **(stayed the same)**
S (state share) = 13.2% for CY 1994; 14.9% for CY 1995; 16.6% for 1996; 18.3% for CY 1997; 20% for CY 1998 and beyond
(advanced implementation of 20% rate for CY 1997)
P (weighted calf price) - based on the average sales price received for weaner calves (steers and heifers) from Lake, Harney and Malheur Counties for the preceding 5 year period based on OSU data

(changed to USDA Oregon agricultural price data indicating the statewide sales price of calves for the preceding one (1) year period based on an October through September year)

Also eliminated difference between isolated and blocked parcels for the purposes of charging.

Formula in **December 1998**

G x CC x S x P

Same as that for December 1996 (no changes). However, competitive bidding provisions eliminated; assured leases granted.

Analysis of Rate Increases

Fee/AUM Change:

1994 to 2005	$2.50 to $5.03 = 6.56% per year or 101.2% increase
1995 to 2005	$3.33 to $5.03 = 4.21% per year or 51.1% increase
1997 to 2005	$2.62 to $5.03 = 8.49% per year or 91.9% increase

Beef Price Change:

1994 to 2005	$83.30 to $104.88 = 2.12% per year or 25.91% increase
1995 to 2005	$66.40 to $104.88 = 4.68% per year or 58.0% increase
1997 to 2005	$72.50 to $104.88 = 4.72% per year or 44.66% increase

Close

From: KROFT Jeff
To: LILLY John
Cc: PUSTIS Nancy; WIEST Randy
Subject: Additional Analysis
Sent: 5/5/2005 2:42 PM **Importance:** Normal

John,

You asked me what would happen if we applied the formula as it stands to the years 1994 (the last year of the "set" $2.50 fee) to 2005. You also asked me to apply the calf prices listed in Randy's table with no rollback averaging.

Here is what you get:

Formula is G (30 pounds) x CC (80%) x S (20%) x P (as indicated below)
30 pounds x 80% x 20% = 4.80

1994	0.8330 x 4.8 = $4.00
1995	0.6640 x 4.8 = $3.19
1996	0.5270 x 4.8 = $2.53
1997	0.7250 x 4.8 = $3.48
1998	0.7600 x 4.8 = $3.65
1999	0.7980 x 4.8 = $3.83
2000	0.7580 x 4.8 = $3.64
2001	0.9080 x 4.8 = $4.36
2002	0.9420 x 4.8 = $4.52
2003	0.8660 x 4.8 = $4.16
2004	0.8999 x 4.8 = $4.32
2005	1.0488 x 4.8 = $5.03

<u>Fee/AUM Change</u>:

1994 to 2005	$4.00 to $5.03 = 2.10% per year or 25.8% increase
1995 to 2005	$3.19 to $5.03 = 4.66% per year or 57.7% increase
1997 to 2005	$3.48 to $5.03 = 4.71% per year or 44.5% increase

<u>Beef Price Change</u>:

1994 to 2005	$83.30 to $104.88 = 2.12% per year or 25.91% increase
1995 to 2005	$66.40 to $104.88 = 4.68% per year or 58.0% increase
1997 to 2005	$72.50 to $104.88 = 4.72% per year or 44.66% increase

FACTUAL BASIS

GRAZING FEE FOR	CALF PRICE	(P)	FEE
1993	$91.20	$2.50	
1994	$83.30	$2.50	
1995	$66.40	$3.33	
1996	$52.70	$3.43	
1997	$72.50	$2.62	
1998	$76.00	$3.72	
1999	$79.80	$3.81	
2000	$75.80	$3.64	
2001	$90.80	$4.36	
2002	$94.20	$4.52	
2003	$86.60	$4.16	
2004	$89.99	$4.32	
2005	$104.88	$5.03	

FAIR MARKET VALUE

The memo we received dated 2/17/05 encourages us to evaluate three potential recommendations.

1) The current formula reflects fair market value rental rate.
2) The current formula needs to be adjusted to reflect fair market value rental rate.
3) The current formula does not reflect fair market value rental rate and needs to be replaced by another method.

The memo defines fair market value as the rental income that the property would command on the open market given lease constraints (my summary).

It seems then, that the charge of the committee is to develop a report that contains the information needed for the Director and Board to make an informed decision about the three recommendations regarding the grazing fee formula and fair market value. In short, our responsibility is to insure that the report contains fair/accurate information that either supports or documents flaws in the current formula and the relationship between fair market value and state grazing leases.

Defining the Market

The pool or population of people that purchase or hold leases and their ability and willingness to pay different prices for the lease defines fair market value. The existing population of DSL leases and leaseholders (Table 1) provides a basis for defining some of the common characteristics shared by that portion of the ranch population that meet DSL lease requirements and separates those ranches from ranch operations that form other markets.

Table 1. DSL LEASE CHARACTERISTICS [1]

	Acreage	AUM's	Pastures	Acres/AUM	AUM/Pasture
Total	540,459	56,379	151	9.6	
Average	12,569	1,311	3.5		375

Average lease length in a given year is 4.5 months.

[1] Data provided by DSL staff

The DSL data summarized above indicate that the average leaseholder needs to have a herd capacity capable of utilizing a lease for 4.5 months that contains 1311 AUMs spread over 3.5 pastures (375 AUMs / pasture). In short, the ranch at a minimum needs to have

From Larry Larson via email 4/11/05

290 cow/calf units, or their equivalent, available to utilize an average lease offered by the state.

A public lands grazing study (Table 2) conducted from 1987 through 1998 (Greer, A. 2000. Public Land Grazing: Changing trends in Southeastern Oregon. OSU Ext. Sp. Rep. 1019) provides some sense of the number of ranches in Malheur, Lake and Harney counties that potentially make up this population.

Table 2. Summary of 1998 Public land grazing leases on BLM and USFS lands.

	County		
	Harney	Lake	Malheur
Federal land ownership (%)	72	71	73
Leaseholder (%)			
Single proprietor	59	48	64
Corporation	34	48	30
Partnership	7	4	6
Countywide Cow/calf population	68,000	46,400	64,400
Federal AUMs (%) grazed from April – September	85	90	83
Proportion (%) of forage required to support county cow/calf population (April–September) that is supplied by federal AUMs	32	31	47

This report indicates that in 1998 Malheur, Grant , Harney and Lake Counties contained 103 ranches that were utilizing federal permits 500-1000AUMs in size, 190 ranches utilizing permits containing 1000-5000 AUMs, and 154 ranches utilizing permits containing more than 5000 AUMs. The leases were used primarily during the spring and summer and formed an important forage source that was needed to successfully operate individual ranches as well as support the cow/calf population that resided within each county.

Federal leases of this type are typically issued for an AUM grazing fee of less than $2.00 with the rancher picking up a series of costs associated with the operation of the lease. A 1997 study by Van Tassel et al. (Van Tassel, L., A. Torell, N. Rimby and E. Bartlett. 1997. Comparison of forage value on private and public grazing leases. J. Range Manage. 50:300-306.) utilized data (Idaho, N. Mexico and Wyoming) from 141 ranches with BLM and 60 ranches with USFS leases to estimate rancher costs. Rancher costs on BLM leases ranged from $12.15 to $17.80 per AUM (range contains 90% of ranches; Average

AUM cost = $14.98). Rancher costs on USFS leases ranged from $16.34 to $23.84 per AUM (range includes 90% of ranch population; Average AUM cost = $20.09). Rancher lease responsibilities on DSL leases are similar to those documented for Federal leases. Federal and State leases do not represent open markets. Rancher costs on DSL leases would be similar to BLM rancher costs.

Private Lease Data

Private lease data obtained from the open market was provided at the 4/1 meeting to initiate a discussion on private lease fees. The data from Lake, Crook, Klamath and Jefferson Counties lack sufficient information to determine the market that they represent.

The data from Harney County contained information that defined some of their market characteristics. The lease data can be partitioned into 3 different groups. The first group contains leases that are less than 200 acres in size. The second and third groups contain leases 400-800 acres and 1200–1500 acres in size, respectively. An equivalent comparison requires that these leases share similar characteristics with DSL lands. Their productivity should be approximately 9.6 acres per AUM with an average lease length should be 4.5 months. These assumptions yield the following information (Table 3).

Table 3. Summary of Harney county private lease data.

	Lease Size		
	< 200 acres	400-800 acres	1200-1500 acres
# of leases	8	9	3
Average Acreage	132 acres	607 acres	1350 acres
AUMs in lease	13.7	63	140
CC pairs supported for 4.5 months	3	14	31
Average lease fee	$10.43	$10.95	$13.80

The information contained in Table 3 suggest that an individual seeking one of the private leases would not be interested in a lease similar to an average DSL lease, nor would the state necessarily want to replace a large leaseholder with a series of smaller leases. The largest private lease category listed in Table 3 contains only 10% (140 AUMs vs. 1311 AUMs) of the carry capacity represented in an average DSL lease. Similarly subdividing the larger DSL leases into smaller leases would either require substantial investment in cross-fencing and water development or lessees would have to be run in common which would increase the difficulty of lease management. These factors limit the likelihood that individuals seeking the private leases listed above (Table 3) are representative of the population of ranchers seeking a DSL lease (Table 1). Both groups have very different operational demands.

Grazing Fee Advisory Committee Meeting
May 6, 2005
Flip Charts Notes

Question: Can you live with Option 1 or not?

Dan Nichols/Larry Larson/Joe Flynn/Martin Andre: Yes

Diana Oberbarnscheidt: Yes but need more data on factors

George Grier: Won't stand in the way of the Option but wants DSL to limit the amount of time before the next fee review; wants to discuss if the need for "floor" to the fee (i.e. a dollar figure below which the fee will not fall)

Tom Clemens: Yes but wants some modifications to the option to make it more acceptable to him.

John Lilly: Yes, but wants modifications.

Question 2: Can you live with Option 2?

Tom Clemens: No, needs modifications. Need more data; explore for next fee review; gather data for SE Oregon Counties; assess comparable lands/operations in order to make apples to apples comparisons.

Diana: No, examine for next fee review; need more data; comparables; need the private land leasing data for SE Oregon in order to establish fair market value.

George Grier: Could support only if DSL can determine that comparables exist; not convinced from the data available today that comparables exist. There must be a reliable and reproducible method to obtain comparables.

John Lilly: Yes, but still need data on comparables

Martin Andre/ Larry Larson/ Joe Flynn/ Dan Nichols: No

Question 3: Can you live with Option 3?

George Grier: Yes, but needs support in conclusions (e.g. Colorado data/experience)

Diana Oberbarnscheidt: Yes, trust land obligation; North and South Dakota examples (i.e. user pays)

Joe Flynn: Concerned with the cost of policing of any closures

Larry Larson: Yes, but concerned about difficulty of implementation

Martine Andre: Yes, but agrees with Joe/Larry.

Dan Nichols/Tom Clemens/John Lilly: No

Question 4: Can you live with Option 4?

Diana Oberbarnscheidt/ Joe Flynn/ George Grier/ Martine Andre/ Tom Clemens/ John Lilly: Yes

Larry Larson: Yes, but difficult to implement.

Dan Nichols: No.

Discussion of Option 1

George Grier: Revise to say "which shall occur no later than 2008"...the data collection work needs to be a high priority before the next review and the DSL needs to be committed to doing the work.

Diana Oberbarnscheidt: Weight gain/survival rate/state share are all factors which need to be researched and validated with new data.

Larry Larson: The research methods used ned to be efficient, accurate and cost effective.

The Committee agreed that gathering the data from DSL leaseholders is imporatnt (i.e. Weight gain and survival).

The Committee agreed that the use of the annual USDA Oregon (statewide) sales data for calves is acceptable.

Discussion Option 2

The Committee agreed to change this recommendation to read:
The Committee recommends that the Department compile private land lease data for the SE Oregon counties for lands comparable to DSL leaseholds including services. Comparable properties will be those of similar size, productivity, forage quality, improvements, access etc. Adjustments may need to be made in order to make sites/rates comparable.

Changes to Conclusions

Diana Oberbarnscheidt: page 8 first paragraph, change to "an amount the buyer is willing to pay"

Discussion of Options 3 and 4

The Committee decided to combine and replace as follows:
If the Department is to meet its Trust mandate in the management of rangelands then the Committee recommends that the Department explore and implement, where feasible, other alternatives for revenue production including but not limited to:

A. *Charging for public outdoor recreation opportunities such as guided hunting or controlled hunts; and*
B. *Leasing for alternative energy exploration/production.*

These alternative uses should pursued while maintaining the grazing uses of the lands and not jeopardizing or violating the current lease agreements.

The Committee asked that the information form other states be included in the Report's conclusions.

New Recommendations

The Committee recommended that a "floor" be established for the grazing fee as follows:
The Committee recommends that the grazing fee rule be amended to limit the annual fee to no less than $4.25 per AUM.

The Committee recommends the following regarding staffing for rangeland management.
The Committee recommends that the current Range Manager position be established A permanent position and that there be added additional seasonal positions are are necessary to continue the range inventory and improvement work.

The Committee recommended the following regarding future grazing fee advisory committees:
The Committee recommends that for the next review of the fee formula a new committee be appointed with balanced representation from the public, users and beneficiaries and that a third paty facilitator be used

The Committee recommended the following concerning minimum fees.
The Committee recommends that the Department set the minimum grazing fee at the amount necessary to recover its costs.

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

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 146 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.

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:

- John Tanaka, Oregon State University, Cove, range economist
- Larry Larson, Oregon State University, La Grande, range ecologist
- Tom Clemens, Bend, citizen
- Martine Andre, Arock, lessee
- Joe Flynn, Plush, lessee
- Dan Nichols, Harney County Commissioner, Diamond
- George Grier, citizen, Springfield
- Diana Oberbarnscheidt, Bend, representing 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/ Decision-making

1. The Chair 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.

   The Chair to fully participated in all discussions.

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 and Hines) over the 9 months of its operations (see schedule below).

- September 17, 2004 in Bend
- December 1, 2004 in Bend
- January 21, 2005 in Hines
- February 25, 2005 in Bend
- April 1, 2005 in Bend
- May 6, 2005 in Bend

The Committee specifically invited public comment at its meeting on January 21, 2005 in Hines.

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. The pool or population of people that form the market are those that have the operational capacity to utilize and meet the criteria of the lease agreement. The open marketplace for grazing leases tends towards negotiated grazing fees for private non-irrigated grazing.

2. Oregon is the only state that uses a formula based on calf prices derived from sale data. However all state formulas use some form of economic index Adjustments to the Oregon formula have been made with each advisory committee review to reflect changes in economic condition and land use.

3. 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. Since 2000 the current fee formula has been increasing the annual fee at a rate that is faster than most Western states. In 2000 only Arizona and Utah had lower grazing fee rates than Oregon. This increase yielded an 18% increase in revenue generated by the fee over the last 5 years and if the rate of increase continues the current formula will make the Oregon fee higher than fees charged in Arizona, Utah, New Mexico, Wyoming and Idaho in 2006.

4. 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. Three states, Colorado, Washington and Wyoming) use NASS data on private non-irrigated grazing land leases to establish the annual grazing fee. States using the NASS private lease information typically discount the fee to account for differences between private and state leases and the services provided by each. Colorado discounts 35%. Colorado also 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. A review of the data collection strategy used by USDA, revealed that the Oregon data would not be statistically valid for Southeastern Oregon, where DSL lands are concentrated. NASS would conduct a more in-depth, reliable survey in the three SE counties if it is paid for by the DSL.

5. Oregon rangelands have a carrying capacity of about 70,000 AUM's. Oregon has 144 leases; 31 lessees pay the minimum rate because their leasehold is small and they run so few stock. The existing population of DSL leases and leaseholders (Table 1) provides a basis for defining some of the common characteristics shared by that portion of the ranch population that meet DSL lease requirements and separates those ranches from ranch operations that form other markets.

Table 1. DSL Lease Characteristics [1]

	Acreage	AUM's Pastures	Acres/AUM	AUM/Pasture
Total	540,459	56,379	151	9.6
Average	12,569	1,311	3.5	375

Average grazing use period in a given year is 4.5 months.

[1] Data provided by DSL staff

The DSL data summarized above indicate that the average current leaseholder has a herd capacity to utilize a lease for 4.5 months that contains 1311 AUMs spread over 3.5 pastures (375 AUMs / pasture). In short, the ranch at a minimum needs to have 290 cow/calf units, or their equivalent, available to utilize an average lease offered by the state.

A public lands grazing study (Table 2) conducted from 1987 through 1998 (Greer, A. 2000. Public Land Grazing: Changing trends in Southeastern Oregon. OSU Ext. Sp. Rep. 1019) provides some sense of the number of ranches in Malheur, Lake and Harney counties that potentially make up this population.

Table 2
Summary of 1998 Public land grazing leases on BLM and USFS lands

	Harney County	Lake County	Malheur County

Federal land ownership (%)	72	71	73
Leaseholder (%)			
• **Single proprietor**	59	48	64
• **Corporation**	34	48	30
• **Partnership**	7	4	6
Countywide Cow/calf population	68,000	46,400	64,400
Federal AUMs (%) grazed from April – September	85	90	83
Proportion (%) of forage required to support county cow/calf population (April–September) that is supplied by federal AUMs	32	31	47

This report indicates that in 1998 Malheur, Grant , Harney and Lake Counties contained 103 ranches that were utilizing federal permits 500-1000 AUMs in size, 190 ranches utilizing permits containing 1000-5000 AUMs, and 154 ranches utilizing permits containing more than 5000 AUMs. The leases were used primarily during the spring and summer and formed an important forage source that was needed to successfully operate individual ranches as well as support the cow/calf population that resided within each county.

6. There is no public database or clearinghouse to readily find actual information about the price being paid for private non-irrigated grazing leases. 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. The private lease data obtained from the open market was from Harney, Lake, Crook, Klamath and Jefferson Counties. The data from Lake, Crook, Klamath and Jefferson Counties lack sufficient information to determine the market that they represent; although the Klamath data (three leases) is for leasehold areas similar in size to DSL's (i.e. 40,000 to 90,000 acres).

   The data from Harney County contained information that defined some of their market characteristics. The lease data can be partitioned into 3 different groups. The first group contains leases that are less than 200 acres in size. The second and third groups contain leases 400-800 acres and 1200–1500 acres in size, respectively. An equivalent comparison requires that these leases share similar characteristics with DSL lands. Their productivity should be approximately 9.6 acres per AUM with an average grazing use period should be 4.5 months. These assumptions yield the following information (Table 3).

Table 3
Summary of Harney county private lease data

	Lease Size		
	< 200 acres	400-800 acres	1200-1500 acres
# of leases	8	9	3
Average Acreage	132 acres	607 acres	1350 acres
AUMs in lease	13.7	63	140
CC pairs supported for 4.5 months	3	14	31
Average lease fee	$10.43	$10.95	$13.80

The information contained in Table 3 suggest that an individual seeking one of the private leases would not be interested in a lease similar to an average DSL lease, nor would the state necessarily want to replace a large leaseholder with a series of smaller leases. The largest private lease category listed in Table 3 contains only 10% (140 AUMs vs. 1311 AUMs) of the carry capacity represented in an average DSL lease. Similarly subdividing the larger DSL leases into smaller leases would either require substantial investment in cross-fencing and water development or lessees would have to be run in common which would increase the difficulty of lease management. These factors limit the likelihood that individuals seeking the private leases listed above (Table 3) are representative of the population of ranchers seeking a DSL lease (Table 1). Both groups have very different operational demands.

7. 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.

8. DSL invested about $50,000 this past year on noxious wed control on rangelands.

9. The Department's rangeland grazing management program costs more to operate than it produces in grazing fees.

10. There are no current studies or data specific to DSL lessees that can validate the weight gain and survival factors of the current formula.

11. 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.

12. The Eastern Oregon Experiment Station's studies come the closest to corroborating the current fee formula factors for weight gain and survival.

13. 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.

14. DSL's lands are more similar to Idaho and Nevada in terms of climate and range productivity.

15. Grazing lease contracts are similar from state to state.

16. Oregon's grazing fee has increased by **XX%** since the current formula was set in 1994. Oregon's grazing fee has increased as the average statewide price of Oregon calves has risen; similarly it has fallen when the price decreases. Prior to 1994, fees were $2.50 for 'wet" pasture grazing; $1.25 for "dry" pasture.

17. It is difficult to uniformly characterize the operations of current grazing lessees. Each operates their leasehold in accordance with their particular needs. In other words each leaseholder operates their lease in accordance with their particular needs. But AUMs consumed by cows in gestation during late fall and winter are charged at the same rate as though the grazing had occurred between May and September by a cow calf unit.

18. The current formula considers that all AUMs are priced as a cow calf unit grazing from May to September.

19. Many lessees use their leaseholds during early spring months when the nutrient value of the forage is the lowest.

20. Most lessees are selling calves as the current fee formula contemplates.

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 with the average being $11.18. No data exists to show what services, beyond forage and water, private land lessors are providing to their lessees.

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. Setting fees via competitive bidding under the current DSL leases is not possible given the terms of the current leases.

Conclusions

The Committee spent considerable time discussing the merits of the current fee formula, its ease of understanding, applicability to DSL's leases and the validity of the factors. It also spent a lot of time discussing the lease rates charged by private grazing landowners.

A majority of the members agreed that the current grazing fee formula reflects fair market rental value. However, no one supporting the current formula felt it was adequate as is. Although no one identified the Calf Price as a factor in need of review, each identified other factors that needed attention and additional research. Other factors in need of review include: the State Share (20%); the Weight Gain factor; and considerations for location, access and water.

According to the Committee, the best argument that the current fee formula reflects fair market rental value is the following: (a) it is what the buyer (the lessees) is willing and able to pay; and (b) it represents the relative value of what is being produced on the land being leased. All parties agreed that if the Department were to continue to use the current fee formula then the factors need to be reviewed, updated and validated. A well thought out methodology including a disclosure on how the data will be used is considered essential.

Some members (4) disagreed that the current fee formula represents fair market rental value. As their reasons for their conclusions they cited: the lack of recent data to verify the factors, particularly Weight Gain; the private grazing land lease values of about $11/AUM on comparable lands; the dissimilarity between private land lease ratemaking and DSL (i.e. DSL is not 'acting' like the market); the ease of understanding a fee based on comparables.

There was agreement that if private land grazing lease rates were used to establish the DSL grazing fee, they (private lease rates) would likely need to be discounted to reflect differences, if any, in services provided. Ideas for making the adjustment included:

- 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 lands 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.

The Committee discussed several other points that influence the DSL rangeland program and the lessees management. Among the issues is open public access and obtaining additional revenue from other land users. The public testimony in Hines raised the later point. According to the public testimony and the members of the Committee, 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.

Recommendations

(Note: the Committee will discuss these 'options' at its May 6 meeting and determine what if any should be included in the Final Report)

Option 1: The Committee recommends that the current fee formula remain in place and that the Department conduct research necessary to update the formula factors prior to the next scheduled review of the formula in 2008. Under the current formula the 2005 Grazing Fee is $5.03 per AUM.

Option 2: The Committee recommends that the current formula be replaced with a fee schedule based on comparable private land lease rates (as determined by survey) discounted to reflect the services provided by the DSL. The new schedule should be set to reflect the relative value of each leasehold by taking into account access, location, fencing, forage value and availability of water. As an example of this approach, the fee could be $7.27 per AUM ($11.18 times .65 = $7.267 or $7.27). The fee would remain constant form year to year until revised based on the results of a new survey.

Option 3: The Committee recommends that the Department explore closing certain lands to public access and/or providing for controlled or regulated hunts to lessen the management costs of lessees.

Option 4:The Committee recommends that the Department investigate the possibility of charging for recreational access to certain rangelands including a fee (pass) for OHV use.

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