



(913) 599-0700

13000 W. 87th St Pkwy Suite 107 Lenexa, KS 66215

## **Public Lands Grazing: Who Benefits?**

John S. Nalivka

May 4, 1993

---

The heated debate concerning the western states public lands continues. . . .

. . . but, *we now have to ask not only for what reason, but who will derive the most benefit?* Neither question is easily answered in the context of economics, primarily because the issues involved are not simple economic issues, but ones which involve an industry as much driven by the culture of the geographic region in which it lies as the economic boundaries in which it functions. The western states range livestock industry is a unique industry which has been thrown into a political arena in a battle where cultural-economic justification for an on-going business mixed with lifestyle is at best one which is difficult to understand, let alone truly appreciate.

The issues are about *economic growth and creating jobs, resource stewardship for current as well as future use, and the creation of wealth from a vast expanse of natural resources.* These are topics for economic consideration. Beyond the economics, the issue may be also simply one of control. The question becomes one of who should control the use and the economic activity occurring within the boundaries of the western states, and more importantly, who should derive the benefit of this economic activity - the private sector which reinvests or the government which acts as an intermediary for transfer?

Let's illustrate the situation with an an example . . . .

. . . which perhaps will bring the topic closer to those not so familiar with public lands. Sterling Marketing, Inc. rents office space in Lenexa, Kansas. This is our choice and we made this as a pure business decision. Within the confines of this office space, we have placed desks, computers, filing cabinets, and an on-line commodity information service. We own this equipment. It is the private property of the business and we are secure in knowing that this right is protected by law. In addition to the tangible assets associated with our

business, we also have intangible assets which include knowledge and experience in the livestock and meat industries. While the computers and desks are tools, the knowledge, experience, and understanding of the many facets of the livestock and meat business are the real foundation and what allows us to maintain an on-going, profitable, business. Consequently, we manage our resources for optimal current and future production, generate income, earn a living and contribute to the economic base of our community much the same as ranchers in the western United States.

Under the above scenario, we feel relatively secure in our business and know that as long as we pay the rent, our economic destiny essentially rests upon our shoulders and the business decisions we make as owners of this consulting firm. Now, lets envision a new scenario which would have a great deal of impact. Our landlord watches our company grow and recognizes that we are a successful business. He may not totally understand the nature of our business, but he knows that the computers must play a vital role. More importantly, he realizes the significance of our knowledge and experience in maintaining the economic viability of the business. So, he now decides that a rent payment which is fair and equitable for the region is not enough. He needs additional rent because he now wants to capture part of the value of the income generated from the computers which we own as well as our knowledge and experience in the livestock and meat business. To justify this rent increase, he indicates that it is only fair because landlords in New York City are receiving much higher rent for "comparable" office space. While the activities occurring in offices at either location may be similar, this is where the comparability ends. Just as in this example of office space rental, the activity of raising cattle in the most general sense may be comparable between Central Nevada and the Kansas Flint Hills, but that is where the comparison ends.

*In each major grazing region of the United States, the business of cattle ranching is defined by its own unique set of production and cost parameters which are determined by geography, soils, climate, markets, and last, but not least, the custom and culture of the region. A rancher's knowledge and experience gained from managing the grazing and water resources in a specific region under the constraint of all these factors are important in determining the value of grazing for a specific ranch.*

#### **What would be our alternatives as businessman under these scenarios?**

We would have four choices, the same as western states ranchers: one, we could agree to pay the increased rent and hope we could generate enough additional revenue to cover the added expense; two, we could hire a lawyer and litigate the matter which would also add additional expense; three, we could move to a new office; or four, we could discontinue our business.

The alternatives to western livestock ranchers are the same as those listed in the above describe office rent scenario. However, unlike Sterling Marketing whose most feasible

option is to find new office space, the end result for Western States ranchers would most likely be the fourth one, that of discontinuing business.

---

More importantly, there would be a Federal taking of split estate property rights owned by western ranchers including the grazing, water right, and range improvements. These basic rights have already been established through customary use of the range, court decisions, and purchases recognized by Federal statutes.

The Fifth Amendment of the Constitution protects property rights and assures just compensation if those rights are taken. The government in all likelihood could not afford this compensation upon a massive taking of range and water rights, and range improvements.

---

The western United States represents a mix of economic activities . . . .

. . . which are balanced within the confines of a cultural environment. To many, the 11 western States represent recreation and awe-inspiring scenic beauty whose enjoyment and benefit can easily be taken for granted. To others, particularly those native to these states, there is the same appreciation for the enjoyment offered by the recreation and scenic quality of this region of the country. But, to this latter group, there is much more. There is the recognition of a direct economic dependence upon this vast natural resource base in the form of generating income, jobs, and the ability to make a living. Those who receive direct economic benefit from western resources through livestock grazing, mining, and timber production whether through ownership or employment understand the necessity of wise and prudent management of the resource. **The achievements of the U.S. economy for over 200 years versus those of the former Soviet Union for only 70 years illustrate well the successes of capitalism versus socialism.**

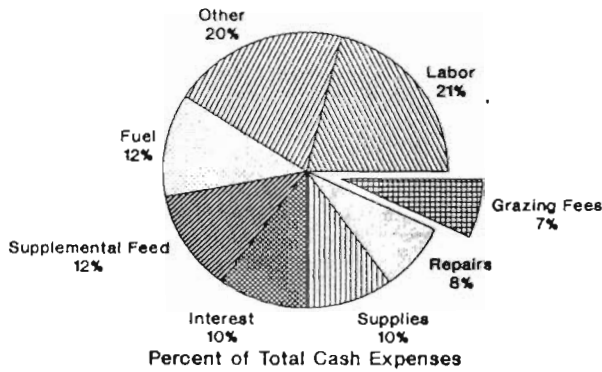
**Property rights, fairness, economic growth, and resource stewardship are the key issues. All are held in a fine balance and can only remain so in the context of a capitalistic economic system. To be forced to relinquish property rights in exchange for a system of redistribution and wealth transfer by the government has far-reaching implications for all of us.**

<p align="center"><b>The Benefits and Costs of Public Lands Grazing</b></p> <p align="center">to the</p> <p align="center"><b>Western Ranching Business</b></p>		
	Costs	Benefits
<b>ECONOMIC</b>	* Operating	* Maintenance of business * <i>Increased productivity</i> * <b>Increased returns</b>
<b>STEWARDSHIP</b>	* Long term capital expenditures	* <b>Increased productivity for long term sustained yield of the renewable natural resource.</b>  * Long term financial health and economic stability of business.
<b>LITIGATION</b>	* Legal fees	* Protection of property rights * Ability to optimize business decisions.  * Legal protection of business.
<b>TAX LIABILITY</b>	* Income tax * Capital gains * Inheritance * Diminished production capability of the resource	* <b>Securing of split estate property rights.</b>

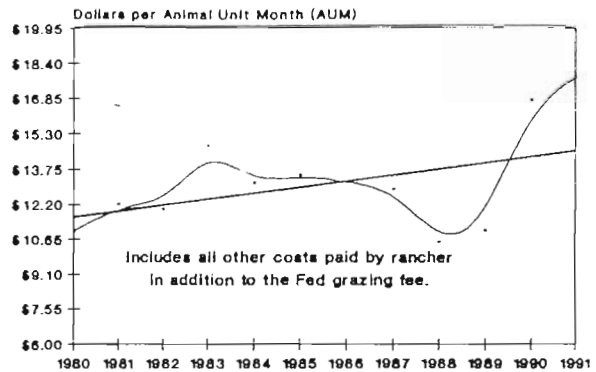
<p align="center"><b>The Benefits and Costs of Public Lands Grazing</b></p> <p align="center">to the</p> <p align="center"><b>Public</b></p>		
	Costs	Benefits
<b>ECONOMIC</b>	<ul style="list-style-type: none"> <li>* <b>TAXES</b> to support activities of government agency.</li> <li>* User fees.</li> </ul>	<ul style="list-style-type: none"> <li>* <b>INCREASED ECONOMIC ACTIVITY IN WESTERN U.S.</b> <ul style="list-style-type: none"> <li>&gt; Jobs</li> <li>&gt; Multiplier effect through the economy</li> <li>&gt; Stronger economic foundation</li> <li>&gt; Local tax base</li> </ul> </li> <li>* Enhancement of America's cultural base.</li> <li>* Recreation</li> <li>* Revenue received from grazing fees.</li> </ul>

<p align="center"><b>The Benefits and Costs of Public Lands Grazing</b></p> <p align="center">to the</p> <p align="center"><b>Public</b></p>		
	Costs	Benefits
<b>STEWARDSHIP</b>	<p>* <b>TAXES</b> to support stewardship activities, some of which would be better performed by the private sector.</p>	<p>* Increased economic activity in Western U.S.</p> <p align="center">&gt; Jobs</p> <p>&gt; Multiplier effect through the economy</p> <p>&gt; Stronger economic foundation</p> <p>&gt; Local tax base</p> <p>* Enhancement of America's cultural base.</p> <p align="center">* Recreation</p> <p>* Revenue received from grazing fees.</p>
<b>LITIGATION</b>	<p>* <b>TAXES</b> to pay for litigation invoked by government agencies and / or groups antagonistic toward any economic activities occurring on Federal lands.</p> <p>* Increased burden on taxpayer</p>	None

**Rangeland Grazing Production Costs**  
Nevada Range Beef Industry

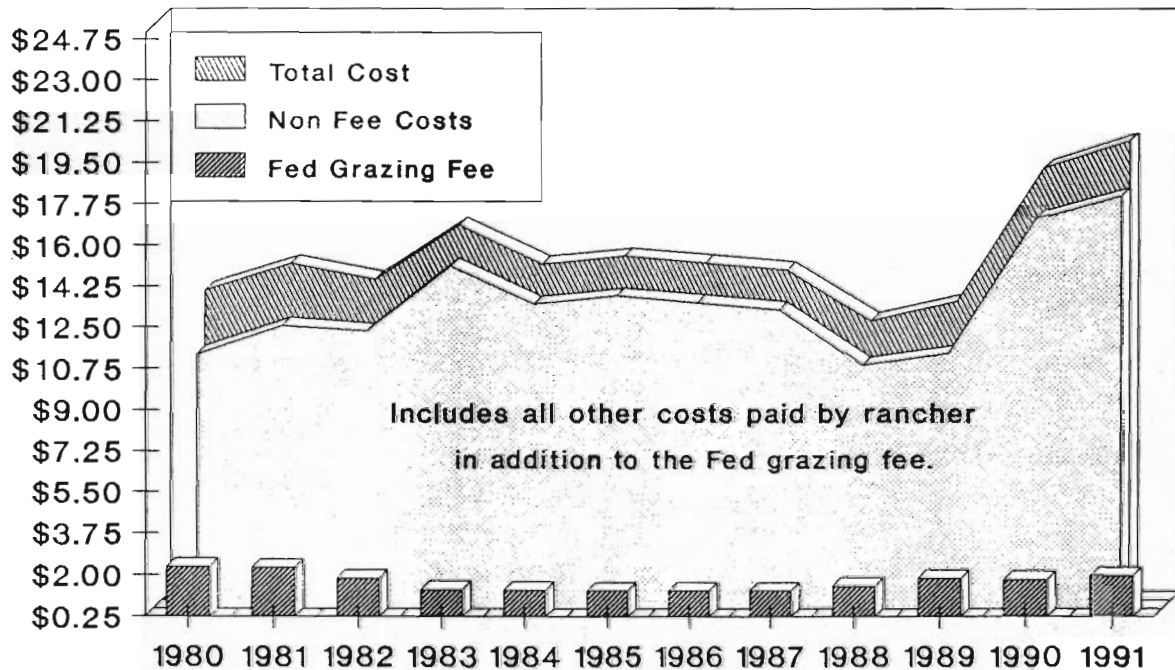


**NonFee Costs** paid by ranchers have risen

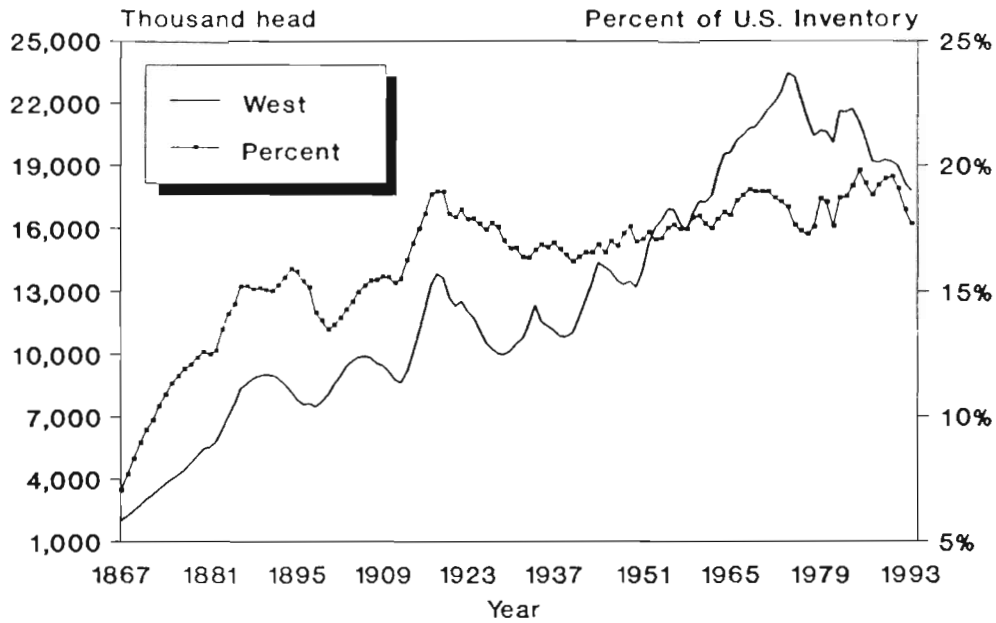


**Can ranchers afford higher grazing fees?**  
**Total grazing costs indicate NOT!**

Dollars per Animal Unit Month (AUM)

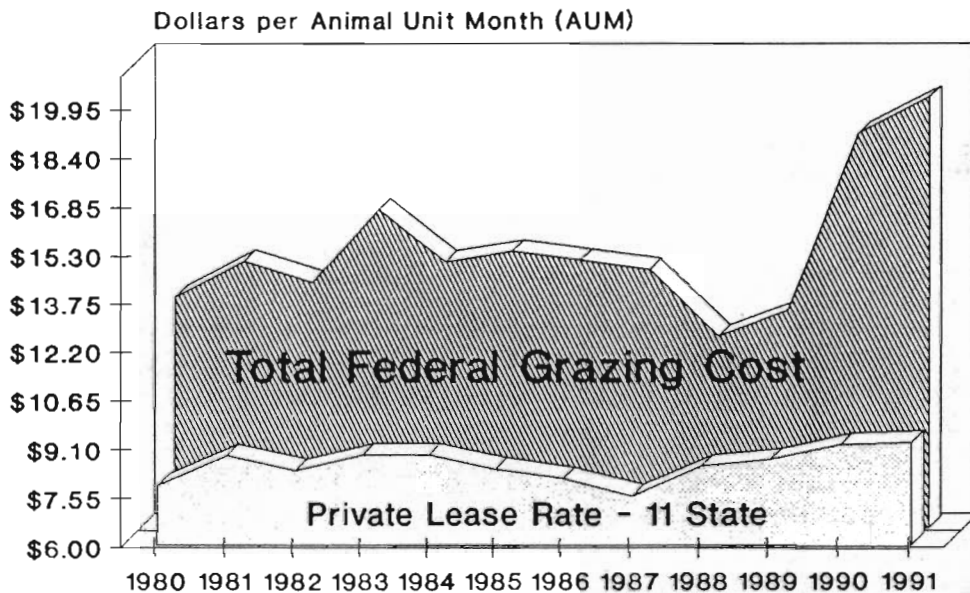


Since 1974, economics have caused 25 % reduction in Western states cattle herd.



Sterling Marketing, Inc. Lenexa, KS

Ranchers grazing Federal lands already pay more than the private lease rate!



Intermountain Resource Economics  
Lenexa, KS

Over the next decade, it will be imperative . . . .

. . .for individual cattle ranchers to (1) recognize and understand the political and economic environment affecting the industry, (2) adapt to this changing environment, and (3) be willing to act upon alternatives available to their ranching operation in order to optimize return. In addition to optimizing the production and marketing capability of the ranching operation, the ranching operations utilizing rangeland resources will be compelled to gain greater **control over and security of resources** necessary for production.

A secure and optimal balance of forage, water, market access, and capital access will be the key to the long term economic viability of any cattle ranching operation in the United States and more specifically, the western U.S. While the **control and access are the operative words**, both will continue to be threatened by outside influences including the U.S. and global economies and the politics of environmental regulation. Every ranch will need to survey and evaluate all available resources in order to provide information necessary for long term strategic planning which is a necessary tool for economic survival. **The uncertainty surrounding public lands grazing will definitely hinder this process.**

The major consideration of any cattle grazing operation. . .

. . .is access to and the ability to utilize a forage base which is well-balanced with regard to availability, quality, and seasonal use. Over time, an imbalance in the forage base will be soon become evident.

---

*Whether the impact is noted in lower-than-expected production or higher costs, **the end result is always the same - substantially lower returns to the ranch.** A well-balanced forage base becomes of even greater importance to range cattle operations utilizing Federal grazing licenses in the western United States where grazing on Federal lands generally comprises the greatest share of total grazing capacity to the operation.*

---

The quantity of grazing as well as the season of use as dictated by the ranch's Federal AUM grazing preference can be a constraint to the business in terms of its use of public rangelands and because supplemental feed sources may be unavailable or cost-prohibitive. Consequently, any evaluation of available options to the ranch centers on a detailed analysis of the Federal lands grazing preference relative to the number of AUMs, location of those AUMs, and the season of use.

### An example of sound resource use and stewardship . . . .

. . . is the Twin Springs Ranch located in the high desert of Central Nevada. Twin Springs ranch is a third generation ranch owned and operated by the Fallini family. Started prior to 1900, this desert cow-yearling operation is located 60 miles east of Tonopah in Nye County, Nevada. The ranch is licensed to graze cattle in the 663,000 acre Reveille Grazing Allotment of the Battle Mountain District. Utilizing 25,730 Animal Unit Months (AUMs) of grazing, Fallini's Hereford cattle are on the range twelve months of the year.

The Twin Springs Ranch has **established customary grazing preference according to water base** as opposed to commensurate land base. This historical water base preference for grazing permits was purchased by the Fallini family and is conferred upon ownership of water in accordance with Section 4110-1 of the Code of Federal Regulations(43). The grazing area for each water development is a four mile radius with AUMs allotted to the area in accordance with the number of water developments and proper utilization by cattle within the four mile radius of the water.

Water base ranches such as Twin Springs Ranch have a valuable grazing management tool available to them. This is control and management of grazing by rotating stock water availability during different grazing seasons. This produces a deferred-rest-rotation system which conserves the grazing resource and tends toward higher conception rates, higher weaned calf crop, and desert cows which are above average quality.

**All water developments in the Reveille Allotment are owned by this ranch.** Even though range improvements have been privately financed by the ranch, Section 12 (Experimental Stewardship Program) of the **Rangelands Improvement Act of 1978** manifests "payment of up to 50 percent of the amount due the Federal government from grazing permittees in the form of range improvement". This allowance is made for those permittees who have been chosen to participate in the experimental stewardship program, of which Mr. Fallini was. *The ranch has never received compensation for the privately financed extensive range improvement program executed through a detailed grazing management plan for the ranch.*

### The costs of utilizing Federal grazing . . .

. . . have been compiled and analyzed for the Fallini Ranch. This data and information is obtained from Schedule F of Federal Income Tax Returns filed by the ranch. This information provides a consistent, readily-available source of cost data to perform ranch economic evaluation. The following table provides an abbreviated form of the information maintained for the ranch and clearly demonstrates that the cost of grazing Federal rangelands:

- 1) far exceeds the cost of the Federal grazing fee;
- 2) far exceeds private lease rates; and
- 3) any increase in the Federal grazing fee would be detrimental to the ranch.

Central Nevada Cow - Yearling Ranch  
Year Around Grazing Costs

Year	Cash Expenses	Fixed Expenses	Total Expenses	Grazing AUMs	Non Fee Cost per AUM	Federal Grazing Fee	Tot. Fed. Grazing Cost	TOTAL		Private Lease Rate
								GRAZING COST PER AUM	TOTAL COST	
1970	\$23,788	\$23,958	\$47,746	25,721	\$1.86	0.44	\$11,317	\$59,063	\$2.30	4.05
1971	23,580	27,229	50,809	20,100	2.53	0.64	12,864	63,673	3.17	4.06
1972	32,664	26,633	59,297	23,700	2.50	0.66	15,642	74,939	3.16	4.17
1973	40,593	31,741	72,334	25,730	2.81	0.78	20,069	92,404	3.59	4.57
1974	29,940	32,715	62,655	25,730	2.44	1.00	25,730	88,385	3.44	5.82
1975	44,380	27,338	71,718	25,730	2.79	1.00	25,730	97,448	3.79	5.75
1976	58,262	23,631	81,893	25,730	3.18	1.51	38,852	120,745	4.69	6.37
1977	54,216	29,568	83,784	25,730	3.26	1.51	38,852	122,637	4.77	7.06
1978	50,838	32,329	83,167	25,730	3.23	1.51	38,852	122,020	4.74	7.11
1979	77,761	33,911	111,672	25,730	4.34	1.81	46,571	158,243	6.15	7.53
1980	180,797	102,831	283,628	25,730	11.02	2.36	60,723	344,350	13.38	7.88
1981	206,045	108,292	314,337	25,730	12.22	2.31	59,436	373,773	14.53	8.83
1982	211,669	96,859	308,528	25,730	11.99	1.86	47,858	356,386	13.85	8.36
1983	266,668	113,298	379,966	25,730	14.77	1.40	36,022	415,988	16.17	8.85
1984	228,378	109,783	338,161	25,730	13.14	1.37	35,250	373,411	14.51	8.86
1985	229,008	118,295	347,303	25,730	13.50	1.35	34,736	382,039	14.85	8.40
1986	228,979	110,804	339,783	25,730	13.21	1.35	34,736	374,519	14.56	8.10
1987	244,655	87,551	332,206	25,730	12.91	1.35	34,736	366,942	14.26	7.55
1988	216,054	55,482	271,536	25,730	10.55	1.54	39,624	311,160	12.09	8.49
1989	222,892	61,908	284,800	25,730	11.07	1.86	47,858	332,658	12.93	8.70
1990	338,837	92,820	431,657	25,730	16.78	1.81	46,571	478,228	18.59	10.86
1991	361,248	96,071	457,319	25,730	17.77	1.97	50,688	508,007	19.74	9.25
1981-91 Average	\$250,403	\$95,560	\$345,963	25,730	\$13.45	\$1.65	\$42,501	\$388,465	\$15.10	\$8.60
										\$9.37

---

### Summary and Recommendations

1. **Maintain the current grazing fee formula as described in the Public Rangelands Improvement Act of 1976.**
2. **Recognize split-estate property rights established through historic and customary usage of the public rangelands.**
3. **Reduce the size and cost of the Federal bureaucracy managing the public domain in the western United States.**
4. **Recognize past legislation regarding the public domain.**
5. **Immediately discontinue the current public lands meeting being held by Secretary of the Interior Babbitt if they serve no other purpose, but to satisfy the need for people to hear themselves talk. The time for talk is long past and the time for constructive action is long overdue.**