

A COMPARATIVE STUDY OF GRAZING FEES ON MONTANA PUBLIC
SCHOOL LANDS AND OTHER GRAZING LANDS IN MONTANA

BY

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CHAPTER I

INTRODUCTION

General Statement of the Problem

Today the financing of Montana public schools, so as to provide a quality education for all, is one of the largest problems facing the citizens of Montana. It is therefore essential that the schools of Montana receive a fair and equitable rental on the public school grazing lands.

The purpose of this study was to compare the grazing fees that are received for each animal unit month on Montana public school lands with the grazing fees received for each animal unit month on other grazing lands in Montana. An "animal unit" is defined as "one cow, one horse, five sheep or five goats", and "animal unit month" is defined as the "amount of natural feed necessary for the complete subsistence of one cow for a period of one month."

Procedures

The comparisons were made in the following manner: The grazing fees per animal unit month on public school lands were compared with the grazing fees per animal unit month on other grazing lands in Montana on a percentage basis. The other grazing lands included private lands, United States Forest Service lands, Montana Indian lands, and Taylor grazing lands. The percentages were figured

on the basis of what per cent grazing fees were of public school grazing fees.

Limitations

The limitations of this study were:

1. There was no procedure to get the exact fee per animal unit month on private lands, because each private land owner had control of the fee per animal unit month for his land.
2. The grazing fees on public lands varied from year to year according to the price of beef, although there seemed to be little difference from year to year.

CHAPTER II

REVIEW OF RELATED LITERATURE

"The state of Montana administers over five million acres of land held in trust for the benefit of our schools and other institutions. Because every dollar of income from the lands or the funds arising from the land are tax replacement dollars, the manner in which these lands are administered is of importance to every citizen of the state."(2)

The purpose of the Commissioner of State Lands and Investments' (1) biennial report to the governor and members of the fortieth legislative assembly of the state of Montana was to account for all monies received from all sources and the distribution made of them. The report also showed the disposition of all state lands and growth of income since 1896. The report covered the period July 1, 1964, through June 30, 1966. It was compiled from the files of the State Land Board in Helena, Montana.

The following information was taken from that report and was directly related to this study. The state of Montana public schools had as of June 30, 1966; 4,601,102.14 acres of land of which 4,181,136.42 acres were grazing land. Responsibility for proper management of the state lands and permanent funds rested with the State Board of Land Commissioners, composed of the Governor, Attorney General, Secretary of State, and State Superintendent of Public Instruction. The actual administration of the department must then of necessity be delegated to the land commissioner, who was appointed by the governor, and his office personnel and field staff. To enable the State Land Board to fulfill its obligation to the public schools

and other state institutions this staff personnel had to be highly qualified in the special fields of their assignment and had to be competent to do an efficient job.

The field staff consisted of five fulltime fieldmen. These employees were responsible for the management, supervision, and conservation of approximately four million, five hundred thousand acres of widely scattered grazing land and about five hundred thousand acres of agricultural land. In the office itself efficiency had been hampered by antiquated bookkeeping and records systems and lack of modern equipment.(3)

The Montana Legislative Council's (2) 1960 report to the legislative assembly of Montana was for the following purpose. The information contained in the report would provide the legislative assembly with the background material necessary to reach sound legislative decisions in regard to school lands and investments. The report was compiled from several sources including a direct survey of the land by the legislative council, interviews with stockmen, schoolmen, bankers, legislators and other interested individuals and agencies, and scrutiny of the files of several different government agencies in Montana.

Chapter IV of this report entitled Agriculture and Grazing Leases, contained much information pointing out the need for this study. All of the following paragraphs were taken from this report and included information which will make this study more meaningful to the reader.

Since 1952 the state has charged rentals on state grazing land by means of a formula used to compute an animal unit month, usually abbreviated to AUM, fee. The use of the formula has resulted in AUM fees on state grazing land ranging from a low of twenty five cents in 1957 and 1958 to a high of forty four cents in 1960. The 1959 legislature added a temporary ten cent bonus to the figure resulting from the formula for the period February 28, 1960, to February 28, 1961.

How closely the minimum rental for state grazing land approximates "market value" can be evaluated by a comparison of the state's rental with fees charged by federal agencies and with rental received in private transactions. The fact that landlord services sometimes exist in commercial contracts must be taken into account when state leases are compared with commercial leases.

The comparison reveals that the state minimum rental for 1959 was below fees charged for Indian land, land utilization land, and below the lowest fees charged by the forest service. Only the Taylor grazing lands rental was less than the charge for state grazing land. The highest fee charged by the forest service was almost three times the state's 1959 fee of twenty eight cents and the lowest fee was twenty five per cent higher. These comparisons are especially significant because with the exception of Indian lands the receipt of revenue is not a primary consideration in the administration of federal lands as it is with state land. The object of state lands ownership is the greatest possible income consistent with conservative use of the land. For the federal government this goal is subordinate, the production of income being only an incidental end.

The 1960 minimum fee for state land is fifty four cents, which compares more favorably with charges made by federal agencies in 1959. It is more than some of the forest service's lower fees, but it is still below the land utilization rental and below the forest service's higher figures and less than the average for Indian land.

A comparison of the state's minimum fee with commercial rentals shows still more contrast. Most commercial rentals probably fall between two dollars or two dollars and fifty cents and four dollars per AUM. Thus, the state fee for 1960 is about one-fourth of what would be considered minimum payment for grazing on private land.

A comparison of interest payments and property taxes on purchased land to minimum state grazing rentals indicates that it is much cheaper to lease than to buy state grazing land.

Were it not for competitive bidding, income from grazing land in 1958 would have been less than what property tax income would have been if the land were privately owned. Had all the lands been leased for the minimum rental, the average per acre income would have been seven and seven-tenths cents, or less than the state-wide average tax on grazing land.

While the value of state land is often minimized because of its alleged "isolation", or its alleged inferior quality, these statements are of dubious validity. The fact that sections of state land are isolated from one another does not make them less valuable to an operator whose private lands are contiguous. Because state lands are spread throughout the state, they generally consist of equal parts of good and bad land.

The conditions of state leases are generally favorable to the lessee. All decisions of range use are left to the lessee and he is allowed to post land against hunting and fishing. State lessees also have the right of tenure up to ten years and if no other bids are received, the expiring lease may be renewed at the minimum rental. If the threat of competition is present, the lessee may retain the lease by matching the highest bid without submitting a bid of his own. Another factor in the lessee's favor is his right to compensation for any improvements he has placed on the land in the event it is sold or leased to another operator.

Low rentals on state grazing lands tend to subsidize those operators who control large tracts of state land and put operators who make only incidental use of state land, or lease no state land, in an unfavorable competitive position. Furthermore, because non-competitive grazing rentals bring in little more income, if any, above what property taxes would supply, the burden of deeded land to furnish funds for schools and local government is increased.

Under present law competitive bidding for leases is possible; however, statutes and administrative practices do not foster competition. The individual desiring to lease state lands, not the land office, must take the initiative. While advertisement of lease expiration dates might increase income and stimulate interest in the leasing of state lands, in the absence of definite data the results of such a program cannot be predicted. Since the vast majority of leases will probably always be non-competitive, a fair minimum AUM rental must be the key to adequate income.

Up until 1927, grazing fees were based on a percentage of the appraised value of the land. In 1927, the legislature devised a rental system based on the classification of the land. This system ranged from one hundred dollars annually for a good section of land to forty dollars annually for a fourth class section of land. During the depression of the 1930's rentals were reduced and following World War II they were increased several times, but the essential

features of the system were retained until 1952 when the grazing fee formula went into effect.

The formula is used to compute an animal unit month fee. The AUM fee which results from use of the formula is multiplied by the appraised AUM carrying capacity of the land to determine a lessee's annual rental. Since the price of beef is one element of the formula, rentals for non-competitive grazing leases frequently vary from year to year.

The use of the formula has resulted in the following AUM fees state grazing land:

1952-40¢	1956-28¢	1960-54¢
1953-43¢	1957-25¢	1961-48¢
1954-42¢	1958-25¢	1962-48¢
1955-35¢	1959-28¢	1963-46¢

The Montana legislature in 1963 again revised the formula for fixing grazing fees on state lands. This new formula combines the AUM, classification of land, and the current price of beef. Montana public law 81-433 of the Revised Codes of Montana (4) says the base annual rental on state lands shall be computed as follows:

1. By multiplying thirty two cents (32¢) plus two (2) times the average price per pound of beef cattle on the farms in Montana for the previous year times the animal unit month carrying capacity of the land.
 - a. The minimum annual rental for grazing lands with an annual carrying capacity of more than fourteen (14) and less than twenty (20) animal units per section is the base rental.
 - b. The maximum annual rental for grazing lands with an annual carrying capacity of more than nineteen (19) animal units per section is ten cents (10¢) more than the base rental.
 - c. The minimum annual rental for grazing lands with an annual carrying capacity of less than fifteen (15) animal units per section is ten cents (10¢) less than the base rental.
2. The carrying capacity of the land, to be used in the above formula, is to be determined by the Commissioner of State Lands.

3. The average price per pound of beef cattle on the farm in Montana shall be taken from statistics published by the Bureau of Agriculture Economics of the United States Department of Agriculture current at the time of the rental, or from other reliable sources current at such time.

This 1963 formula produced grazing fees per AUM in relation to the three classification of state land up to 1968 as follows:

1964	66¢, 76¢, and 86¢	1967	64¢, 74¢, and 84¢
1965	60¢, 70¢, and 80¢	1968	66¢, 76¢, and 86¢
1966	58¢, 68¢, and 78¢		

The information for these five years was provided by the Montana Department of State Lands and Investments in Helena, Montana.

CHAPTER III

METHODS

Procedures

The data in this study was provided through the cooperation of individuals and government agencies in the state of Montana. These individuals and agencies were contacted by the author through personal interviews, telephone calls, and correspondence.

The information on grazing fees per animal unit month on Montana public school land was obtained from the Montana Department of State Lands and Investments in Helena, Montana. It was gathered by the author through a personal visit and a telephone call.

The United States Department of the Interior, Bureau of Indian Affairs, located in Billings, Montana, compiled the data on Indian lands. This was obtained by telephone and letter.

The Bureau of Land Management, another agency of the Department of the Interior, provided data on Taylor grazing lands. The state office in Billings, Montana, sent the information by letter per request of the writer by telephone.

The data on forest service lands was obtained through a personal visit. This visit was to the local office of the United States Department of Agriculture, Forest Service, in Bozeman, Montana.

Interviews with personnel of the three United States departments listed above provided some data on private land grazing fees. Montana State University departments of Agriculture Economics, Extension

Service, and Agriculture Marketing also provided data on these fees. An interview by the author with personnel in these offices was used to obtain this information. Personnel of the Soil Conservation Service provided information by personal interview also. The writer compiled an average private land grazing fee from this information.

Grazing fees on all lands, except private lands, are set by law. Fees on private lands were gathered from approximately twelve persons involved directly in agriculture in Montana. This information was used to compile what the author felt was a fair average fee on private lands.

Results

The grazing fee per animal unit month for each type of grazing land appears on the following table.

TABLE 1. FEES PER ANIMAL UNIT MONTH ON GRAZING LANDS OF MONTANA, 1968

Type of Land	Fee Per Animal Unit Month
Public School Lands	\$.66, .76, and .86*
Indian Lands	1.92
Taylor Grazing Lands	.33
U. S. Forest Service Lands	.63
Private Lands	2.25

* 3 classifications of public school grazing land

Table 2 provides a breakdown by percentage. This percentage was based on what per cent other grazing fees were of public school

grazing fees. Seventy-six cents was used as the average grazing fee on public school lands. This was necessary because of the three classifications of public school grazing land.

TABLE 2. PERCENT OTHER GRAZING FEES WERE OF PUBLIC SCHOOL GRAZING FEES, 1968

Type of Land	Per cent
Indian Lands	252.6%
Taylor Grazing Lands	43.4
U. S. Forest Service Lands	82.9
Private Lands	295.1

It should be noted that the primary purpose of public school lands, Indian lands, and private lands was to produce income. This was not true of Taylor grazing lands and forest service lands. Research to find the best and most practical means to manage, improve, and maintain the productivity of forest and related lands was one objective of these two agencies. Providing fish and game habitat and recreation areas were also of primary importance to these two agencies.

The public school grazing lands of Montana have produced approximately \$1,000,000 in revenue per year since 1963. This money is appropriated directly to the public elementary schools of Montana.

Summary

By evaluating the results of this study, it was determined that:

1. A significant difference does exist in grazing fees on those

lands whose primary objective is to produce income and public school lands. Montana public school lands did not produce 40% of the income produced on Indian and private lands per each animal unit month.

2. The grazing fees on lands whose primary purpose is other than to produce income were much closer to public grazing fees than were the fees on Indian and private lands.

CHAPTER IV

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

The problem of the study was to compare the grazing fees received on Montana public school lands with grazing fees received on other lands in Montana. The fees from public school lands are used to support the public schools of Montana. It is therefore essential that a fair and equitable rental be received from these lands.

The other lands studied included private lands, United States Forest Service lands, Montana Indian lands and Taylor grazing lands. The percentages were figured on the basis of what per cent other grazing fees were of public school grazing fees.

The study revealed that there is a significant difference in grazing fees on school lands as compared with other grazing lands. This difference was the greatest when compared with fees received from grazing land whose primary purpose was to produce revenue. The variance between public grazing fees and fees from land whose primary objective was other than producing revenue was not as great.

Conclusions

Conclusions which could be drawn from this study include:

1. There was a significant difference between grazing fees on public school lands and fees on lands whose primary purpose

was to raise revenue.

2. Public school grazing rates were less than 40% of fees charged on Indian and private lands.
3. Montana public schools were not receiving an equitable rental on their grazing lands.
4. Grazing fees on lands whose primary objective was not income, were significantly less than those on public school grazing lands.
5. There is a need for further research on carrying capacity of public school lands and proper management of school lands.

Recommendations

In light of the results of this study the following recommendations are made by the author:

1. Grazing fees on public school lands should be raised so that they are more in line with those on Indian and private grazing lands.
2. A study of the carrying capacity of public school lands should be made.

These recommendations are made for the sole purpose of insuring that the people of Montana receive a fair and equitable rental on their lands.

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4. Revised Codes of Montana, 1947, sec. 81-433.