

Frequently Asked Questions:

- 1) **Question: Who does this rate calculation change apply to?**

Answer: Grazing dispositions affected by rental rate changes include grazing leases (GRL) grazing licences (FGL) and grazing permits (GRP).

- 2) **Question: Are assignment fees changing?**

Answer: In the proposal, assignment fees would be updated from the current rates where a fee is charged per AUM transferred, to a flat-rate fee which will be consistent with other public land dispositions.

- 3) **Question: What are the results of the lease cost survey?**

Answer:

2015 Total Public Land Grazing Costs In Northern and Southern Alberta

	Dollars/AUM/Year Association Held Leases		Dollars/AUM/Year Average Association Held Leases
	North	South	Average
Total Public Land Grazing Costs	\$37.13	\$36.73	\$36.93

Taken from 'Alberta Public Land Grazing Lease 2016 Cost Survey Results' prepared by MNP LLP, available at <http://www.wsga.ca/pdf/2017/Alberta-Grazing-Lease-Cost-Survey-2016.pdf> and <http://www.albertagrazinglease.ca/downloads/2017/Alberta-Grazing-Lease-Cost-Survey-2016.pdf>.

- 4) **Question: Based on the lease cost survey, how do Crown land leases compare to private leases?**

Answer:

The 'Alberta Public Land Grazing Lease 2016 Cost Survey Results' report found that the average total public land grazing costs for holding a public land grazing disposition in Alberta was \$36.93/AUM. This cost accounts for both the direct and indirect costs undertaken by the leaseholder, including the stewardship and multiple use requirements unique to public land disposition holders. Based on this information it appears that public land lessees have costs comparable to private pasture rental rates based on the amount of capital and operational investment they put into their leases.

- 5) **Question: How are the spring and fall market prices determined?**

Answer: The fall sale price used in the model is calculated based on the 2 year rolling average of the 800-900 lb. steers at the end of September, using CANFAX market data. This provides for

MODERNIZING ALBERTA'S PUBLIC LAND GRAZING FRAMEWORK

more stable rental rates than might be experienced with year to year actual fall market prices but over time should result in very similar rents paid.

The spring price is estimated (not actual) based on the 10 year rolling "Olympic" average difference between the actual CANFAX reported sales price for 600-700 lb. steers at the end of April and 800-900 lb. steers at the end of September.

April prices for 600-700 lb. steers are reliably 9% to 11% higher than the price of 800-900 lb. steers at the end of September. In this sense the rent model uses the September value of the steer to determine lease rent along with the 10-year Olympic average margin between April and September prices typically associated with steers.

The use of longer term averages in the model rent calculation prevents pricing anomalies that could lead to unrealistic and inappropriately high rents. Of specific concern would be a (rare) situation where the calculated margin is unrealistically high due to lower spring prices for 600-700 lb. steers. Though the spring auction represents the market assessment of the yearling, most ranchers don't purchase yearlings for this purpose. Their costs are more stable and better represented in the formula by the long term average margin.

6) Question: Does the new framework mean an increase in rental rates across Alberta?

Answer: No. In a comparison going back to 1996, 16 of those 21 years would have had lower rental rates than the current frozen rate. The new framework is based on profitability so rental rates would only increase in years where there is higher profitability for the producer. If profit is high (and rental rates are subsequently higher than current rates) when the proposal is introduced it will be phased-in over 5 years to mitigate issues with implementing higher rental rates after they have been frozen for so long.

7) Question: How does the model represent a real working ranch?

Answer: The model reflects the grazing industry profitability. It is based on real market data and real costs as reported by leaseholders.

The rental rate framework calculates lease rents based on the **profitability** of operating a grazing lease, considering issues such as market prices, transportation, operating and labour costs. To calculate rent, a model is used that is based on the purchase of yearlings in the spring, weight gain on the lease during the grazing season, and sale price in the fall. Although there is considerable variability in how cattle operations and grazing leases are managed across the province this standard was chosen to provide consistency. Inputs to the model come from actual market reports (e.g. CANFAX) and take into account long standing cycles between spring and fall markets; and yearling and calf markets. Grazing lease cost surveys provide inputs to the model such as weight gain on the lease and direct and indirect operating costs.

The grazing lease rental rate varies as net revenue from cattle (steers) minus additional input costs and grazing lease operating costs (i.e. profitability) either increases or decreases.

8) Question: How do you account for the differences in cattle prices from north to south?

Answer: In collecting data for the model, CanFax (the market analysis division of Canadian Cattlemen's Association) data was used to compare the regional prices and it was found there is no statistically significant difference between regional prices. CanFax currently reports the averages for all of Alberta, and regional feeder prices are no longer published due to lack of difference between regions.

9) Question: Will this proposal help to maintain market access?

Answer: The proposed public land grazing framework addresses long standing concerns over the calculation of grazing lease rental rates, implements a fair and transparent system, recognizes the real value of the lease, and addresses issues with media perception and continued market access.

10) Question: Are grazing dispositions the best use of provincially owned land?

Answer: The grazing disposition program has successfully served as an instrument to conserve and maintain rangelands and the goods and services they provide. The program works to effectively manage agricultural uses on public lands to ensure grazing disposition holders apply proper stewardship principles to sustain the health and productivity of native grasslands, forests and tame pastures. The leaseholder, in fulfillment of their contractual responsibilities, assures that these lands provide a broad suite of ecological services to all Albertans, including biodiversity and watershed values. Having a knowledgeable steward on the land making sure the resource is managed properly to enhance the health of the ecosystem has been the reason these lands have been conserved over the last 150 years.

Leaseholders undertake a significant stewardship role on the land they lease; they are responsible for maintaining range health, and maintaining grazing dispositions ensures that the land is not available for development, allowing them to both protect and maintain environmental values. Adaptively managed grazing is a significant factor in rangeland management and upkeep of ecosystem health.

MODERNIZING ALBERTA'S PUBLIC LAND GRAZING FRAMEWORK

RENTAL RATES COMPARISON

Current Rental Rates	Proposed Rental Rates
System has been in place since 1960 and rates have been frozen at their current value since 1994.	A new formula based on potential profit from grazing on a lease.
Rental rate formula not aligned with other provincial royalty systems.	Proposed rental rate formula has comparable methodology to other resource sectors.
<p>Rental rates are a zonal percentage of the perceived forage value of the lease based on:</p> <ul style="list-style-type: none"> • Weight gain of cattle on grass. • Grazing capacity of the lease • Average yearly price of cattle. 	<p>Rental rate formula calculated using:</p> <ul style="list-style-type: none"> • Market value of cattle in the spring and fall. • Potential weight gain of cattle on grass • Input, investment and operating costs of disposition holder (Grazing Lease Cost Study).
<p>Three grazing zones with separate rates and zonal royalties:</p> <ul style="list-style-type: none"> • Zone A = \$2.79/AUM (rent); 10% (royalty) • Zone B = \$2.32/AUM (rent); 8^{1/3} % (royalty) • Zone C = \$1.39/AUM (rent); 5% (royalty) <p>And any adjustments as designated by the Minister.</p> <p>Originally designed to account for longer distance to market faced by northern producers and to encourage settlement of northern Alberta.</p> <p>Different charges per AUM in the grazing zones. Zonal royalties are fixed for each grazing zone.</p>	<p>Elimination of three grazing zones and replacement with a two zone system that captures minimum rental rate of \$2.30/AUM in Zone 1 and \$1.30/AUM in Zone 2 with incremental royalties increasing as profits increase:</p> <ul style="list-style-type: none"> ○ ↑ cattle prices = ↑ royalties ○ ↓ cattle prices = ↓ royalties (to \$2.30 or \$1.30/AUM) <p>Distance to market no longer a major factor.</p> <p>Incremental royalties are responsive to market conditions and equal across the Province.</p>
<p>Rental rates have been frozen since 1994. Lacks transparency (both formula and frozen fees).</p> <p>Not based on relevant cost structures incurred by leaseholder.</p> <p>Unresponsive to market conditions (frozen fees).</p>	<p>Proposed rental rate formula applies a two zone formula that would be calculated each year.</p> <p>Transparent and defensible.</p> <p>Based on relevant cost structures incurred by leaseholders (cost study).</p> <p>Responsive to market conditions.</p>

An animal unit month (AUM) is the amount of forage required for one month by one mature cow with or without a calf. This is approximately 1,000 pounds of forage dry matter.

MODERNIZING ALBERTA'S PUBLIC LAND GRAZING FRAMEWORK

ASSIGNMENT FEES COMPARISON

Current Assignment Fees	Proposed Assignment Fees
Assignment fees were designed to recover 50% of the capitalized value of a disposition.	Assignments are an administrative process and the proposed fees will be based on the cost to the department of registering the assignment.
Assignment fee charged based on carrying capacity of land: <ul style="list-style-type: none"> ○ \$ per AUM 	Administrative cost not based on carrying capacity.
These fees were originally calculated using a formula approach: <ul style="list-style-type: none"> • $\{BPC + (BPC * CPC) + Constant + (BPC * LVC)\} * 0.5$ • BPC – Base Period Consideration • CPC – Cattle Price Change • LVC – Land Value Considers: <ul style="list-style-type: none"> • Percentage change in cattle prices. • Percentage change in grazing land values in four zones. • Base period consideration. 	Fee that reflects the actual administrative and other costs of registering the assignment.
Assignment fees calculated using the “Formula Approach” were frozen in 1994: <ul style="list-style-type: none"> • Zone A1 = \$48.53/AUM • Zone A2 = \$99.80/AUM • Zone B = \$48.53/AUM • Zone C = \$3.84/AUM 	Elimination of assignment fee zones.
In 2003, assignment fees for “Arms-Length Transfers” incorporated into <i>Public Lands Act</i> at the following fixed rates: <ul style="list-style-type: none"> • Zone A1 = \$50/AUM • Zone A2 = \$100/AUM • Zone B = \$50/AUM • Zone C = \$5/AUM Five other assignment types were established in 2003 under the Act with a flat \$100 assignment fee charge.	Elimination of assignment fee zones and establishment of assignment fees by Ministerial Order. Elimination of different categories of assignments.
Assignment fees are not transparent: <ul style="list-style-type: none"> • Based on outdated and cumbersome “Formula Approach”. • Not consistent across province, dependent on a variety of transfer types. • Not reflective of the cost of assigning the disposition. • Not consistent with other <i>Public Lands Act</i> dispositions. 	Assignment fees would be transparent: <ul style="list-style-type: none"> • Not based on a cumbersome formula. • Applied consistently across the province. • Not differentiated by transfer types. • Based on department costs to register the assignment. • Consistent with other <i>Public Lands Act</i> dispositions.