FINANCIAL EFFECTS
OF THE PROPOSED
RANGE LAND REFORM GRAZING FEE REGULATION
ON THE
STATE OF NEVADA
Financial Effects of the proposed Rangeland Reform Grazing Fee Regulation on the State of Nevada

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The grazing fee regulation, stated in Rangeland Reform, would have the following shortrun economic effects

A. Decrease in Livestock Production

A decrease in livestock production would occur since an increase in the grazing fee causes a decrease in the quantity demanded of animal unit month's (aum's) of grazing. Through the use of a grazing demand equation, estimated by Department of Agricultural Economics at the University of Nevada, the increase in grazing fees from $1.98 per aum in 1994 to $3.96 per aum in 1997 causes a decrease in the quantity demanded of 364,783 aum's or 18%. This decrease of 364,783 aum's is 30,399 animal units having a livestock production value of $13,731,647 or 9% of livestock sector output. Revenue collected by the fee change would increase by $2,624,586 or 64%.

B. Increase in Livestock Production Costs

The increase in the grazing fee from $1.98 per aum in 1994 to $3.96 per aum in 1997 would increase a typical rancher's livestock production costs by 4%. During this same period the Food and Agricultural Policy Research Institute at Iowa State University and University of Missouri predict livestock market prices to be lower and livestock production costs to be higher. Based on these predictions and the grazing fee increase, a rancher would experience a decrease in cash receipts of 7% and a total increase in cash expenses of 5% which would lower net income by 31% At this lower net income, the rancher would incur a negative ending cash balance of $8,000 and would have financial difficulty replacing livestock and equipment, making principal payments, meeting family living expenses, and paying taxes. A negative ending cash balance would force the rancher to borrow against equity lowering the rancher's net worth. The rancher would be forced to sell ranch property or go through foreclosure if unable to borrow against equity. Lower earning potential of ranch real estate assets would also cause a devaluation of those assets.

C. Decrease in Economic Activity

The economic activity in the rural counties is dependent on the presence of agriculture and more specifically livestock production. The increase in grazing fees from $1.98 per aum in 1994 to $3.96 per aum in 1997 would decrease livestock production by $13,731,695 or 9% of livestock sector output. State-wide, the economic effects of this decrease in livestock sector activity would be partially offset by grazing fee revenue returned to the state. However, the decrease in livestock sector activity would also be multiplied in the state-wide economy because of interrelationships between the livestock sector and the other sectors in the economy. The net state-wide economic effect is an estimated decrease of $23,500,774 in industry output. Associated with this decrease in industry output, job loss would be 420 jobs, and, personal income would decrease by $8,639,624 in the rural counties.