

Hawaii Cattlemen's Council

White Paper

Regarding Agricultural Land Use Policy and Practices

(As approved at the Annual HCC Convention on 11/3/07)

HCC VISION: *An attractive, productive and well managed landscape across our state which maintains current grazing capacities and which nurtures our resources while perpetuating our quality of life and culture.*

CHALLENGE STATEMENT: *Since Hawaii's cattle producers under optimum conditions are unable to return sufficient income to the land to successfully compete with higher value uses of AG land and particularly real estate values, Hawaii's cattle industry is threatened by the loss of sufficient carrying capacity to support the critical mass necessary to sustain the infrastructure, services and markets upon which the industry is vitally dependent.*

STRATEGIC GOAL : *To create the compelling case which causes each of the three stakeholder groups (Producers, Landowners, and the Community/Public) to recognize the critical need to work together to provide sufficient incentives to the owners of grazing lands and open space to cause them to continue to maintain the same for the mutual long-term success and well-being of all stakeholders.*

A. Background Perspective Issues: To understand the problem and in turn its possible solution requires an understanding of the issue from more than just the perspective of the cattle producer. It is necessary to understand the perspective of all three primary stakeholder interests which include;

1. From the Cattle Producer's Perspective

- (a) Ranchers are good land stewards. Our State's natural resources (land and water) and ecosystems must be enhanced with proper management and financial resources and these practices are consistent with prudent ranch management;
- (b) Good grazing land is increasingly scarce. While over 1 million acres of the State's 4.2 million acres total are in some sort of "grazing" use according to Real Property tax records, being able to secure reasonable quality pasture on reasonable terms and tenure is increasingly difficult;
- (c) Critical mass is a critical issue. Hawaii's cattle industry needs a core of larger producers to survive to preserve the necessary critical mass that benefits all producers and keeps the operation of the industry's infrastructure (transportation, packing houses, market opportunities, etc) viable.
- (d) Grazing land generates very modest income/rent. For comparative purposes, average quality pasture (assume one animal unit per 7 acres with infrastructure) can support an annual rent of approximately \$30 per animal

unit which translates to about \$4.28 in rent/return per acre to the landowner/lessor annually. This is among the lowest returns per acre of any ag commodity which makes it difficult for a cattle producer to compete for land based on price alone.

- (e) Preserving a lifestyle has real value but is not an economic benefit. Cattle producers do value their lifestyle and perpetuating “the ranching life” and that value does to some degree mitigate the economic hardships of the cattle business; however “lifestyle value” is neither a legally recognized benefit by which a fiduciary’s performance is measured by its beneficiaries or the courts nor is it of any economic value to the landowner.
- (f) Most of Hawaii’s larger cattle producers are also major landowners. Accordingly they share both the perspective of the producer and the private landowner which sometimes appear to be in conflict.

2. From the Landowner’s Perspective

(a) Private Landowner

- (1) Ranching alone is increasingly difficult for a fiduciary to justify. Fiduciaries (representatives of owners or beneficiaries) have a legal obligation to maximize the return on their assets. They therefore are challenged to justify keeping land in low return uses such as pasture. To do so they need sound business justification to preserve their AG land in agricultural use as they are otherwise under pressure to sell it or convert its use for the greater financial benefit of owners and beneficiaries
- (2) The fair market value of much pasture land is relatively high. The true *real estate* value of land in grazing use varies substantially. For comparative purposes, assume grazing land has a fair market value range from \$750 to over \$10,000/acre. Assuming a landowner’s desired yield rate of 6% on asset value, this translates to a reasonable target return for a landowner of between \$45 to \$600 per acre return annually. Pasture returns clearly fall far short of this mark. (See A1(d) above)
- (3) Other needed revenue opportunities exist which are complimentary to grazing, however they require supportive public policy. These could include, for example but are not limited to, renewable energy farms, eco/ag-tourism, agro-forestry, and managed access and recreational activities. Probably the greatest potential complimentary use is selective real estate development of a scale and density not inconsistent with predominantly grazing and open space use (“conservation real estate”). There is also the emerging prospect of compensating landowners for the value of the ecosystem services attributable to their land (See A3 below).
- (4) The risk of land value loss due to the imposition of additional land use regulations is also a major concern. To many landowners, ranching is an acceptable land use, provided the political risk from over regulation, land-use reclassification, down zoning and/or the public expectation that open landscapes will provide unrecompensed ecosystem services (e.g., clean air, clean water, storm water control, species protection), is minimized. When the risk of increased land use regulation is high or the loss of value

appears immanent, the fiduciary is compelled to seek to monetize the land value, generally through conversion to non-agricultural/non-open space uses. Allowing for some combination of density transfers, density sales and/or partial use of existing permitted densities in the face of a regulatory down zoning (such as IAL designation) is one possible mitigation tool.

- (5) The carrot works better than the stick. As fiduciaries and property rights advocates, landowners will react more positively to incentives and policies which respect property rights than they will to further regulation and the loss of property rights which they perceive as the taking of value. They will more willingly support continued open space and grazing uses if they are given the opportunity to benefit from these complimentary additional revenue sources rather than by their lands being further regulated by more restrictive land use policy.

(b) Public Landowner/State

- (1) Public agencies have a basic conflict. On one hand public agencies have a “public trust” obligation to maximize rental income off public assets (i.e. State land) while on the other hand they have a responsibility to preserve uses and practices of economic and ecosystem service significance which are of broader value to the community including grazing uses but which return fewer rental dollars to the State.
- (2) Overriding combined public benefits can outweigh purely economic return. Given supportive public policy, the State could justify, more easily than private landowners with fiduciary responsibilities, setting aside certain government lands for lower value returns such as pasture leases where there is a clear overriding public benefit from doing the same.

3. From the Community's/Public's Perspective –

- (a) The public tends to take for granted all the value which Hawaii's open space represents, much of which is in pasture use. Grazing land has high ecosystem service value. This includes its value for aesthetics and scenic vistas, water catchment and infiltration, carbon sequestration, oxygen production, habitat enhancement and preservation, fire suppression and fuel load management, soil conservation, preservation of cultural values, potential for additional access and recreational opportunities, etc. These collectively are increasingly referred to as Eco-system services.
- (b) The Community/Public does not truly compensate Landowners for the value of these ecosystem services nor for the opportunity costs which the landowners must accept as the price of maintaining these open spaces which provide these community benefits. However initiatives such as the Natural Capital Project (a partnership of Stanford University, The Nature Conservancy, and The World Wildlife Fund) are making meaningful progress in Hawaii as well as globally to address this inequity.

B. HCC Policy Positions to Implement this Strategic Concept –

Given the above considerations and the inter-relationship between the needs of our cattle producers and the broader issues of the landowners and the community with which we must be partners, HCC finds it appropriate to adopt the following policies relative to land;

1. To better educate the public, including policy makers, about the total contribution of our industry to the broader community in terms of the value of (a) the economic impact of a healthy cattle industry and (b) the value of the ecosystem services attributable to land under the stewardship of ranchers.
2. To work to preserve public grazing lands with a “no net loss of State grazing land” policy by restricting the leasing of public lands which have historically been used for grazing leases to only qualified ranchers and on lease terms appropriate to encourage responsible pasture use and management.
3. To work toward supportive government policies which not only allow but effectively provide incentives to Landowners to invest in (a) diversified income opportunities on ag land not inconsistent with predominately grazing use and open space and (b) activities that have the potential to maintain or enhance ecosystem service values including rural or “conservation real estate” characterized by significantly reduced densities and coupled with substantial commitments to surrounding ag and open space uses.
4. To support legislation which
 - (a) protects or grandfathers the rights of owners of existing properties in the AG district from regulatory loss of value. This should cover situations where existing parcels were subdivided or entitled with the intent of allowing for the construction of a residence of a rural character in the AG district without a proven nexus to farming or other “ag use”;
 - (b) provides incentives to preserve and protect important mauka lands;and
 - (c) determines what is to become of non-IAL lands including pasture and grazing lands *prior to* triggering the Important Ag Land designation process.
5. To inventory and quantify suitable grazing lands State-wide and determine the ecosystem service value of the same.
6. With respect to the ongoing efforts to designate “Important Ag land” Statewide;
 - (a) To maintain the position that grazing lands generally do not fit the Constitutional intent of IAL based solely on their low agricultural productivity value per acre. If, however such lands also have other characteristics of soil, water/rainfall, access and infrastructure, or uniqueness that distinguish them for

IAL consideration, then any IAL designation decision should be based on that criteria; and

(b) To recognize that IAL designation of lands currently being grazed could result in a conversion of those lands to other, more profitable, agricultural uses, with a concurrent loss of many of the Eco-system services provided by grazing land and not provided by land used for more intensive agricultural production.

7. To support and promote best management practices of our State's grazing lands and open spaces so as to conserve and maximize the benefit of the natural resources thereon including but not limited to management practices which -

(a) minimize the fuel loads and the risk of wildfires which also threaten our forests, natural areas and even improved properties;

(b) control the introduction and spread of invasive species;

(c) conserve our soil and habitat resources;

(d) conserve our water resources to maximize the watershed value of grazing lands while minimizing potential down-slope adverse impacts to land and near shore resources

CONCLUSION: This paper and these policies are adopted with the specific intent of assisting in the development of public policies which support the economic sustainability of predominantly grazing and other managed open space uses. This is vital not only to the survival of Hawaii's cattle industry but to sustaining Hawaii's agricultural resource base and the ecosystem service values which make Hawaii so unique.