

## **Multiple Species Hunting Lease Income, Costs and Net Income Budget**

A very important source of ranch income is the leasing of land and providing services for hunting. This decision aid helps organize data for evaluation of alternatives. Budgeting this activity is an important part of ranch planning. Choice of the leasing rate and evaluation of the economics of providing different services are important in developing a profitable enterprise.

The decision aid reports calculated income, cash and total costs and net income per hunter. The necessary hunter payment to cover total and cash cost is reported to guide setting payment levels. Decision aids do facilitate “what if” analysis.

### **Marketing Hunting Leases**

There are many alternative ways to market hunting leases. They range from yearlong lease to special day hunts for an individual or groups by species. Prices vary from per acre to day hunts. Pricing can be per hunter or per gun. Group package hunts can be provided for dove hunts and this is another example of a marketing alternative. These terms must be spelled out in the lease agreement and enforced for success and to also for long term management of the wildlife and their habitat. The decision aid accommodates any of these pricing alternatives.

### **Input Data**

There are so many alternative ways to implement a hunting leasing program that its essential the users get their own data to use the decision aid. The example is only to guide data organization for the correct calculations.

The year-round hunting enterprise budget for **multiple species** is set up on a total ranch and per acre basis. To facilitate this budgeting, the user inputs the number of acres of land involved and investment and costs on a total ranch basis, and the program will calculate values per acre and hunter and summarize values in the same format.

A capital asset cost calculator is included in a second sheet to account for special assets replacement cost or depreciation of the special assets for hunting.

Care must be made in identifying investments and production costs that are associated only with the hunting activity. Investment and production costs are for an ongoing ranch hunting or for adding a ranch hunting activity.

If hunting does not compete with the livestock in forage use, it is a supplemental production activity and should not be charged for rangeland use. However, if hunting is competitive with livestock, hunting should be charged for the animal units (AU) of forage that would be used by the competitive livestock enterprise.

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## Reports

This decision aid provides a summary of data in a budget format that summarizes income and costs per acre and per hunter for an annual cash leased property. The decision aid reports calculated income, cash and total costs and net income per hunter.

### Key Cost Definitions for Preparing a Hunting Budget

- **An enterprise budget** is defined as a projection of income and expenses which is used for planning. Expenses and costs are used interchangeably in the definitions.
- **Direct Costs** are directly related to the level of the production activity. These costs go away when the hunting activity stops. Labor to feed wildlife is a direct cost. Hunting direct costs include feed, insurance, fuel and oil and services provided to hunters. For crops grown for wildlife it is seed, fertilizer, and machinery costs. Management can control these costs.
- **Indirect Costs or overhead** are costs that can't be assigned directly to a production activity. These costs are also referred to as fixed costs. Indirect costs continue irrespective of the level of production activities. Depreciation, repair and maintenance of vehicles, machinery and equipment, labor and management road maintenance, brush and weed control, property tax are examples of indirect costs. **General and Administrative Costs (G&A) are indirect** costs that all businesses incur to cover bookkeeping, professional fees, insurance, office supplies, computer services, phone and utility costs. Administrative costs include the salary and payroll for support personnel.
- **Depreciation (a non-cash cost)** is one of the top costs in ranching. Following IRS rules for calculated depreciation that use short useful lives and no salvage value are worthless for budgeting. Depreciation is the accounting procedure used to allocate a capital investment to the annual use cost of capital asset like vehicles, equipment and machinery. Capital assets are purchases that have a productive life of more than one year. Facilities like hunting blinds and wild life special water systems are depreciable assets. The number of years the depreciation cost is allocated each year depends on the "productive or economic life" of the asset less the **salvage value** or what the asset is worth after the **economic life** is completed. Information on capital assets is maintained in asset accounts. The tax CPA updates the IRS depreciation schedule annually. A suggestion is to have the CPA run a "book depreciation" with reasonable productive lives and salvage value. An alternative is to use a capital asset replacement cost for assets again based on realistic productive lives and salvage value. Limiting investment in depreciable assets is important in controlling cost. If it rusts or rots you don't need it is an appropriate saying. See following notes on IRS depreciation limitations.

- **Internal Revenue Service (IRS) depreciation** is the calculation procedure that IRS requires a business to follow to calculate tax-deductible depreciation. It should be clear that the rules followed to calculate IRS depreciation **are not good estimates** of depreciation for production cost calculation. Accelerated depreciation using Section 179 and zero salvage value for IRS depreciation distorts year to year depreciation cost when calculating total cost and net income.
- **Ownership Costs** of depreciable assets include depreciation, insurance, housing and capital cost. Vehicles, machinery, equipment and improvements generate ownership costs. These costs are reported as indirect or fixed costs. Fuel, repairs and maintenance are direct operating costs.
- **Owner Operator Labor and Management** compensation should be included in the production cost calculation at a level equivalent to the salary required to hire a non-family member to provide an equivalent service. Compensation in excess of this amount must be considered capital distributions in order to reconcile the retained earnings and statement of cash flows. This makes a sole proprietor's cost comparable to a corporate business's calculation. Owner manager costs need to be included in production costs. Many sole proprietor businesses have withdrawals for family living. Withdrawals beyond an equivalent to the salary would be an equity withdrawal on a production cost,
- **Finance cost** is the cash interest cost paid. Finance cost is the cash spent paying interest to support the production activities. In **economic analysis** interest is an opportunity cost or the return expected for the next best investment with similar risk or the interest saved by paying off debt. Annuls interest is calculated based on ½ of operating cost times opportunity cost interest rate.
- **Total Costs** include the three major cost components:
  1. Direct costs, 2. Indirect costs including general and administrative (G&A) and management costs including owner operating management compensation and
  2. Finance costs. These costs are consistent with the total business income statement or profit and loss (P&L) statement.

### **Income and Costs Reporting**

Annual income, cash and total costs and net income per acre and per hunter are calculated. The necessary per hunter payment to cover total and cash cost is reported to guide setting payment levels. Decision aids do facilitate “what if” analysis.

The business accounting system designed for the IRS compliance can use subaccounts to record income and expense to support budgeting. Producers using QuickBooks™ use the class feature to report income and expenses by production activity like hunting.

**References:**

- **Tiffany Dowell Lashmet - Texas A&M University**  
agecon.tamu.edu/emd\_person/tiffany-dowell  
“Ranchers’ Agricultural Leasing Handbook: Grazing, Hunting & Livestock Leases”.
  
- **Fambrough, Judon**, “The Texas Deer Lease”, Real Estate Center, Texas A&M University, Technical Report 570.
  
- **All Lease Listings - Hunt Texas**  
[https://www2.tpwd.state.tx.us/huntwild/hunt/planning/hunt\\_lease/listlease.php](https://www2.tpwd.state.tx.us/huntwild/hunt/planning/hunt_lease/listlease.php)
  
- **Texas Parks & Wildlife** – check for licenses fees and numerous other hunting leasing Information for Texas.
  
- **Texas Parks & Wildlife** “1-D-1 Open Space Agricultural Valuation Wildlife Management Plan for the Year (s)”.