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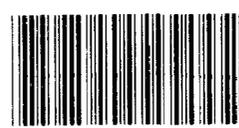
GAO

Briefing Report to the Honorable
Steve Symms, U.S. Senate

May 1988

NATIONAL FORESTS

Computing the 25- Percent Sharing Formula for Forest Service Timber Receipts



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General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-230949

May 9, 1988

The Honorable Steve Symms
United States Senate

Dear Senator Symms:

This briefing report responds to your October 13, 1987, request for information on the impact that several alternative methods of sharing Forest Service timber receipts would have had on local government revenues in fiscal year 1986. The sharing of timber receipts is intended to compensate local governments for lost tax revenues, the shared receipts being specifically earmarked for public roads and schools. Under the current method authorized by the National Forest Management Act of 1976, local governments receive 25 percent of (1) timber sale receipts, (2) credits that timber purchasers received for the costs they incurred while constructing national forest timber roads,¹ and (3) reforestation deposits made by timber purchasers.

The administration proposed in its fiscal year 1987 budget an alternative sharing method that would exclude road credits and reforestation deposits from the payment and also deduct Forest Service operating costs from timber receipts. Proposed legislation to authorize this method was sent to the Congress in April 1987; however, no action was taken. At your request, we analyzed the effects of this and three other alternative sharing methods as well as the effect that the administration's proposal could have on Payments-in-Lieu of Taxes (PILT), an additional payment made by the Department of the Interior's Bureau of Land Management (BLM) to local government units.

The results of our analysis are summarized below, and additional details are contained in sections 2 and 3.

¹Roads that are generally limited to vehicles used in timber-hauling operations.

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Analysis of Administration's Proposal and Alternatives

We compared fiscal year 1986 payments at 13 national forests² under the current method with payments that would have been made under the 4 alternative sharing methods. Our analysis showed the following:

- The administration's proposal would have reduced payments by the 13 forests by about \$13.4 million, a 41-percent reduction. (See table 2.1.)
- If based on sharing timber receipts only, the payments would have been reduced by about \$8 million, a 24-percent reduction. (See table 2.2.)
- If based on sharing timber receipts plus credits earned for roads constructed, the payments would have been reduced by about \$4.5 million, a 14-percent reduction. (See table 2.3.)
- If based on sharing timber receipts plus reforestation deposits, the payments would have been reduced by about \$3.5 million, an 11-percent reduction. (See table 2.4.)

We were unable to determine the national effect of the administration's proposal because Forest Service operating costs were available for only 13 forests at the time of our analysis. However, we were able to calculate the national effects under the three other alternatives because Forest Service operating costs were not a factor in these calculations. Nationwide, the payment for fiscal year 1986 under the current method was \$248.6 million. By comparison,

- the second alternative (timber receipts only) would have reduced payments nationally by more than \$67 million (27 percent),
- the third alternative (timber receipts plus road credits) would have reduced payments nationally by more than \$37 million (15 percent), and
- the fourth alternative (timber receipts plus reforestation deposits) would have reduced payments nationally by more than \$29 million (12 percent).

Effect on Payments-in-Lieu of Taxes

We determined how the administration's proposal would affect PILT for 34 counties that received timber payments exclusively from the forests we reviewed. We compared the current method, including the current PILT payment, with the administration's proposed alternative, including a recalculated PILT payment for fiscal year 1986. We found that the total combined PILT and 25-percent timber payments for the 34 counties would drop from \$12.8 million to \$7.9 million, or by 38 percent.

²At the time of our review, these forests had implemented a new Forest Service timber cost accounting system, which provided the data needed for our analysis. The remaining national forests are in the process of implementing the system.

PILT payments actually would have been about \$363,000 more under the administration's proposal. This is because the PILT formula subtracts the 25-percent timber payments in determining the size of the PILT payment. The reduced timber receipts under the administration's method results in smaller amounts of timber receipts being subtracted to determine the PILT payment.

We relied primarily on Forest Service and BLM data for our calculations and did not independently verify the accuracy of the data nor trace its support to the agencies' records. We discussed the information in this briefing report with Forest Service officials, who said that it was fair and accurate. BLM officials said that we used the correct methodology to calculate PILT and that our calculations were accurate. (See sec. 1 for details on our scope and methodology.)

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of this letter. At that time, we will send copies to the appropriate Senate and House committees; the Director, Office of Management and Budget; the Secretary of Agriculture; and other interested parties. Copies will be made available to others upon request. Should you need further information, please contact me at (202) 275-5138.

Major contributors to this briefing report are listed in appendix I.

Sincerely yours,



Brian P. Crowley
Senior Associate Director

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Abbreviations

BLM	Bureau of Land Management
GAO	General Accounting Office
NFMA	National Forest Management Act
PILT	Payments-in-Lieu of Taxes

Background, Scope, and Data Limitations

Payments to States

The Act of May 23, 1908 (Twenty-Five Percent Fund Act), authorized the Secretary of the Treasury to pay the states 25 percent of all moneys received during any fiscal year from each national forest. The moneys are intended to compensate the counties for lost tax revenues. The National Forest Management Act (NFMA) of 1976 amended the 1908 act to authorize the Secretary to also pay states 25 percent of the (1) credits that timber purchasers received for the costs they incurred for constructing national forest timber roads¹ and (2) moneys timber purchasers paid to the Forest Service for the cost of future reforestation activities. The Twenty-Five Percent Fund Act requires that the states, in turn, spend the revenues in the counties in which each national forest is situated and that the money be used to benefit roads and schools. In fiscal year 1987, the Service reported that about \$286 million was distributed to the states.

In addition to the above receipts, the Payments-in-Lieu of Taxes (PILT) Act of 1976 authorized the Secretary of the Interior to make payments to local governmental units on the basis of the number of qualifying federally owned acres situated in the unit's jurisdiction. The payment is the higher of (1) 75 cents for each qualifying federally owned acre within the unit's boundary, reduced by the amount of certain federal land payments that were received by the unit in the preceding fiscal year, or (2) 10 cents per federally owned qualifying acre within the unit of local government's boundaries. These payments may also be restricted by population limits. This payment is calculated and distributed by the Department of the Interior's Bureau of Land Management. In fiscal year 1987, PILT payments amounted to over \$104 million. The law does not specify how this money is to be spent.

Objectives, Scope, and Methodology

The President's budget proposal for fiscal year 1987 recommended that natural resource receipts be shared with the states using a formula that would (1) deduct the federal cost of generating gross receipts from gross receipts and (2) exclude states from sharing reforestation and purchaser road credits. Under this proposal, the administration estimated that states could expect to receive about \$79 million and the federal government would save about \$219 million. In October 1987, Senator Steve Symms of Idaho asked us to compare the current payments with the administration's proposal and several other alternatives. As agreed, we computed and compared current payments with payments based on 25 percent of

¹Roads that are generally limited to vehicles used in timber-hauling operations.

- timber receipts determined using the administration's proposed net alternative² (alternative 1),
- timber receipts only (alternative 2),
- timber receipts plus credits earned by timber purchasers for roads constructed (alternative 3), and
- timber receipts plus payments made by timber purchasers to defray the cost of reforestation (alternative 4).

In addition, we agreed to determine the impact on selected counties of changing from the current sharing formula to one based on sharing net receipts. In this analysis, we also considered how the change would affect the PILT payments to these counties.

To develop the requested information, we used documents obtained from the Forest Service and BLM. These documents included the laws pertaining to the sharing of receipts, revenue and expense statements from 13 forests, forest receipt information, reports of payments by the Forest Service to states, and reports containing data necessary for county PILT calculations. Forest Service regional and BLM state officials reviewed our formulas and calculations and said that they were accurate. Our audit work was performed between September 1987 and February 1988.

Data Limitations

The Forest Service recently adopted a cost accounting system making it possible to determine net revenues from each forest's timber sale program. However, the system is not yet fully implemented on all national forests. As a result, our analysis was limited to the 13 forests that had implemented the system and had net revenue figures available at the time of our audit work. The latest net revenue figures available were for fiscal year 1986. (See table 1.1.)

²Pursuant to our agreement, data from the Forest Service's new timber sale cost accounting system was used to compute the 25-percent payments for this alternative. For details on this system, see Timber Program: A Cost Accounting System Design for Timber Sales in National Forests (GAO/AFMD-87-33, Apr. 21, 1987).

**Section 1
Background, Scope, and Data Limitations**

**Table 1.1: Forests With Net Revenue
Information Available During Our Review**

Forest	Region	State
Kootenai	1	Montana
Black Hills	2	South Dakota
Routt	2	Colorado
Coconino	3	Arizona
Boise	4	Idaho
Targhee	4	Idaho
Tahoe	5	California
Mt. Hood	6	Oregon
Rogue River	6	Oregon
Umatilla	6	Oregon
Kisatchie	8	Louisiana
Hiawatha	9	Michigan
Tongass	10	Alaska

The Forest Service cost accounting system is designed to match timber revenues with the costs associated with producing them. The system does not include revenues and expenses related to nontimber uses such as recreation, grazing, minerals, and power. As a result, we could not calculate net revenues from these activities. We, therefore, eliminated nontimber revenues from all alternatives compared.

Our analysis of how the administration's proposal would affect individual counties was limited to 34 counties. These are the counties that received timber revenues exclusively from the above 13 forests. They were, therefore, the ones for which we had net revenue figures available for analysis.

In order to calculate PILT payments for a fiscal year, information from a prior fiscal year is needed. For example, to recalculate the PILT payments for fiscal year 1986, fiscal year 1985 data would be needed. Because the Forest Service's cost accounting system is new, however, no net revenue figures were available for fiscal year 1985. Therefore, we substituted our net figures for fiscal year 1986 where 1985 figures were called for. We do not believe that this substitution negates the illustrative purpose of the analysis.

Estimated Payments From National Forests— Current Sharing Method Compared With Four Alternative Sharing Methods

Tables 2.1 through 2.4 compare the amounts paid by the 13 forests from timber receipts, purchaser road credits, and reforestation deposits with what they would have paid under the four alternatives. The amounts shown in the “current payment” column were calculated using data taken from the fiscal year 1986 Forest Service report, National Forest Statement of Receipts.

Table 2.1: Payments Computed Under Current Method Compared With Administration’s Proposed Alternative, Fiscal Year 1986

Forest	Current payment	Alternative 1 ^a	Difference	Reduction (percent)
Kootenai	\$2,910,737	\$1,302,500	\$1,608,237	55
Black Hills	1,113,182	248,226	864,956	78
Routt	45,343	0 ^b	45,343	100
Coconino	1,857,333	1,031,732	825,601	44
Boise	327,951	0 ^b	327,951	100
Targhee	190,402	0 ^b	190,402	100
Tahoe	2,379,258	1,316,613	1,062,645	45
Mt. Hood	11,354,161	7,342,750	4,011,411	35
Rogue River	6,869,411	6,265,054	604,357	9
Umatilla	2,088,609	577,295	1,511,314	72
Kisatchie	3,016,016	1,403,350	1,612,666	53
Hiawatha	268,498	0 ^b	268,498	100
Tongass	449,599	0 ^b	449,599	100
Total	\$32,870,500	\$19,487,520	\$13,382,980	41

^aThese amounts are 25 percent of the net timber revenue generated by the forests, as shown in the Forest Service’s statements of income and expenses for each forest.

^bThis forest has more expenses than revenues.

Section 2
Estimated Payments From National
Forests—Current Sharing Method Compared
With Four Alternative Sharing Methods

Table 2.2: Payments Computed Under Current Method Compared With Alternative Method Based on Timber Receipts Only, Fiscal Year 1986

Forest	Current payment	Alternative 2 ^a	Difference	Reduction (percent)
Kootenai	\$2,910,737	\$1,435,483	\$1,475,254	51
Black Hills	1,113,182	225,828	887,354	80
Routt	45,343	8,365	36,978	82
Coconino	1,857,333	1,329,640	527,693	28
Boise	327,951	6,358	321,593	98
Targhee	190,402	19,154	171,248	90
Tahoe	2,379,258	1,131,862	1,247,396	52
Mt. Hood	11,354,161	10,832,248	521,913	5
Rogue River	6,869,411	6,400,486	468,925	7
Umatilla	2,088,609	1,732,437	356,172	17
Kisatchie	3,016,016	1,644,373	1,371,643	45
Hiawatha	268,498	123,809	144,689	54
Tongass	449,599	0 ^b	449,599	100
Total	\$32,870,500	\$24,890,043	\$7,980,457	24

^aThese amounts are 25 percent of timber receipts. Timber purchaser road credits, reforestation deposits, and Forest Service timber sales costs were not included.

^bThe amount is zero because the timber receipts account for the Tongass National Forest had a credit balance resulting from rate determinations directed by the Federal Timber Contract Payment Modification Act, which became law on October 16, 1984.

Table 2.3: Payments Computed Under Current Method Compared With Alternative Method Based on Timber Receipts Plus Credits Earned for Roads Constructed, Fiscal Year 1986

Forest	Current payment	Alternative 3 ^a	Difference	Reduction (percent)
Kootenai	\$2,910,737	\$2,089,015	\$821,722	28
Black Hills	1,113,182	293,316	819,866	74
Routt	45,343	11,100	34,243	76
Coconino	1,857,333	1,478,367	378,966	20
Boise	327,951	109,019	218,932	67
Targhee	190,402	99,418	90,984	48
Tahoe	2,379,258	1,313,846	1,065,412	45
Mt. Hood	11,354,161	11,354,161	0	0
Rogue River	6,869,411	6,653,957	215,454	3
Umatilla	2,088,609	2,078,785	9,824	0 ^b
Kisatchie	3,016,016	2,352,386	663,630	22
Hiawatha	268,498	162,460	106,038	39
Tongass	449,599	360,222	89,377	20
Total	\$32,870,500	\$28,356,052	\$4,514,448	14

^aThese amounts are 25 percent of timber receipts plus purchaser road credits. Reforestation deposits and Forest Service timber sales costs were not included.

^bLess than 1 percent.

Section 2
Estimated Payments From National
Forests—Current Sharing Method Compared
With Four Alternative Sharing Methods

Table 2.4: Payments Computed Under Current Method Compared With Alternative Method Based on Timber Receipts Plus Reforestation Deposits, Fiscal Year 1986

Forest	Current payment	Alternative 4^a	Difference	Reduction (percent)
Kootenai	\$2,910,737	\$2,257,204	\$653,533	22
Black Hills	1,113,182	1,045,694	67,488	6
Routt	45,343	42,608	2,735	6
Coconino	1,857,333	1,708,606	148,727	8
Boise	327,951	225,290	102,661	31
Targhee	190,402	110,138	80,264	42
Tahoe	2,379,258	2,197,274	181,984	8
Mt. Hood	11,354,161	10,832,248 ^b	521,913	5
Rogue River	6,869,411	6,615,940	253,471	4
Umatilla	2,088,609	1,742,261	346,348	17
Kisatchie	3,016,016	2,308,003	708,013	23
Hiawatha	268,498	229,847	38,651	14
Tongass	449,599	20,432	429,167	95
Total	\$32,870,500	\$29,335,545	\$3,534,955	11

^aThese amounts are 25 percent of timber receipts plus reforestation deposits. Timber purchaser road credits and Forest Service timber sales costs were not included.

^bThe dollar amounts for alternatives 2 and 4 are the same because surplus reforestation deposits were transferred from Mt. Hood's reforestation account to its timber receipts account, leaving a credit balance in the reforestation deposit account. Mt. Hood actually shared about \$700,000 in reforestation deposits in fiscal year 1986.

The Effect of the Administration's Proposal on Payment-in-Lieu of Taxes

Table 3.1 compares the amounts received by the 34 counties as their shares of timber receipts, purchaser road credits, reforestation deposits, and PILT payments in fiscal year 1986 with the amounts they would have received using the administration's proposed net alternative plus a recalculated PILT. Table 3.2 shows that PILT payments actually would have been about \$363,000 more under the administration's proposal.

Table 3.1: Payments Computed Under Current Method, Including PILT Payments, Compared With Administration's Proposed Alternative Plus Recalculated PILT, Fiscal Year 1986

Forest/County	Current/PILT payments	Net/PILT payments	Difference	Reduction (percent)
Black Hills:				
Fall River	\$241,347	\$213,809	\$27,538	11
Lawrence	361,360	203,355	158,005	44
Meade	80,086	58,297	21,789	27
Pennington	726,074	494,125	231,949	32
Custer	463,384	279,860	183,524	40
Crook	300,555	218,388	82,167	27
Weston	36,833	32,285	4,548	12
Boise:				
Ada	149,127	149,090	37	0 ^a
Boise	197,083	93,863	103,220	52
Gem	96,086	95,543	543	1
Targhee:				
Madison	43,127	39,224	3,903	9
Fremont	357,955	307,866	50,089	14
Teton	67,832	59,368	8,464	12
Mt.Hood:				
Hood River	2,267,626	1,473,909	793,717	35
Multnomah	770,994	501,100	269,894	35
Wasco	2,220,192	1,443,098	777,094	35
Umatilla:				
Morrow	229,348	88,277	141,071	62
Asotin	86,684	58,004	28,680	33
Columbia	253,999	150,302	103,697	41
Garfield	152,288	92,052	60,236	40
Walla Walla	17,087	15,899	1,188	7

(continued)

Section 3
The Effect of the Administration's Proposal
on Payment-in-Lieu of Taxes

Forest/County	Current/PILT payments	Net/PILT payments	Difference	Reduction (percent)
Kisatchie:				
Clairborne	102,276	48,655	53,621	52
Grant	725,189	344,957	380,232	52
Natchitoches	661,196	314,553	346,643	52
Rapides	521,041	247,813	273,228	52
Vernon	435,695	207,276	228,419	52
Webster	62,620	30,181	32,439	52
Winn	568,570	270,485	298,085	52
Hiawatha:				
Alger	118,082	86,468	31,614	27
Cheboygan	13	3	10	77
Chippewa	162,594	95,806	66,788	41
Delta	183,600	117,439	66,161	36
Mackinac	73,103	31,687	41,416	57
Schoolcraft	97,841	64,315	33,526	34
Total	\$12,830,887	\$7,927,352	\$4,903,535	38

^aLess than 1 percent.

Table 3.2: Current PILT Payments Compared With Recalculated PILT, Fiscal Year 1986

Forest/County	Current PILT payments	Recalculated PILT payment	Difference	Increase (percent)
Black Hills:				
Fall River	\$199,123	\$204,394	\$5,271	3
Lawrence	119,067	149,326	30,259	25
Meade	46,635	50,838	4,203	9
Pennington	370,377	414,809	44,432	12
Custer	181,831	217,077	35,246	19
Crook	148,445	184,469	36,024	24
Weston	30,980	30,980	0	0
Boise:				
Ada	148,605	149,090	485	0 ^a
Boise	89,152	93,863	4,711	5
Gem	88,598	95,543	6,945	8
Targhee:				
Madison	38,325	39,224	899	2
Fremont	296,983	307,866	10,883	4
Teton	57,602	59,368	1,766	3

(continued)

Section 3
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on Payment-in-Lieu of Taxes

Forest/County	Current PILT payments	Recalculated PILT payment	Difference	Increase (percent)
Mt. Hood:				
Hood River	21,036	21,036	0	0
Multnomah	7,068	7,068	0	0
Wasco	20,655	20,655	0	0
Umatilla:				
Morrow	15,936	29,290	13,354	84
Asotin	6,571	35,861	29,290	446
Columbia	16,452	84,644	68,192	414
Garfield	10,118	52,756	42,638	421
Walla Walla	13,464	14,898	1,434	11
Kisatchie:				
Clairborne	1,995	1,995	0	0
Grant	14,078	14,078	0	0
Natchitoches	12,903	12,903	0	0
Rapides	10,049	10,049	0	0
Vernon	8,504	8,504	0	0
Webster	1,953	1,953	0	0
Winn	11,089	11,089	0	0
Hiawatha:				
Alger	82,876	86,468	3,592	4
Cheboygan	3	3	0	0
Chippewa	88,223	95,806	7,583	9
Delta	109,932	117,439	7,507	7
Mackinac	26,997	31,687	4,690	17
Schoolcraft	60,505	64,315	3,810	6
Total	\$2,356,130	\$2,719,344	\$363,214	15

^aLess than 1 percent.

Major Contributors to This Briefing Report

Resources,
Community, and
Economic
Development Division,
Washington, D. C.

Brian P. Crowley, Senior Associate Director (202) 275-5138
John W. Harman, Associate Director
Gustave A. Johanson, Group Director
Robert J. Mancuso, Assignment Manager
Earl P. Williams, Jr., Writer-Editor

Seattle Regional Office

Leo H. Kenyon, Evaluator-in-Charge
Jill J. Lund, Site Senior

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