

GAO

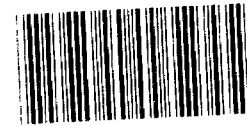
Testimony

For Release
on Delivery
Expected at
9:30 a.m. EDT
Thursday
May 26, 1988

**TONGASS NATIONAL FOREST:
Timber Provision of the Alaska
Lands Act Needs Clarification**

Statement of
Brian P. Crowley, Senior Associate Director
Resources, Community, and Economic
Development Division

Before the
Subcommittee on Forests, Family Farms
and Energy
Committee on Agriculture
House of Representatives



135971

042332

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our recently issued report entitled TONGASS NATIONAL FOREST: Timber Provision of the Alaska Lands Act Needs Clarification (GAO/RCED-88-54; 4/11/88). This report was done in response to requests from Senators Proxmire and Stevens that we look at various accounting, legal, and programmatic issues concerning the management of the timber sales program on the Tongass pursuant to the Alaska National Lands Conservation Act of 1980 (ANILCA).

We were asked to evaluate the Forest Service's efforts to maintain employment in the Tongass timber industry; analyze the expenditures made from the fund and determine if certain uses were consistent with the law; review the legal opinions of the U.S. Department of Agriculture and industry regarding payment of road-building costs on existing contracts; and compare the revenues and costs of the Tongass timber sales program.

INDUSTRY EMPLOYMENT AND TIMBER SUPPLY

The Tongass National Forest covers about 16.8 million acres--the largest national forest in the United States. ANILCA designated about one-third of the Tongass as wilderness, thereby withdrawing about 1.7 million acres of commercial forest land from the timber base. To ensure that sufficient timber would still be available to the timber industry and industry employment would not decline, Section 705(a) of ANILCA required the Forest Service to make available to industry a timber supply of 4.5 billion board

feet per decade and created a special annual fund of at least \$40 million (the Tongass Timber Supply Fund) to pay for making timber available.

The employment goal of Section 705(a) of ANILCA and the Tongass Land Management Plan--to maintain employment in the timber industry at about the same level that existed when the act was passed--has not been achieved. Through 1986, the Forest Service has offered an average of more than 450 million board feet of timber each year, but because of declining demand for timber and increasing competition from the Alaska Native corporations, only about 53 percent of this volume has been sold. These factors, together with increased efficiency in the industry, have reduced employment associated with the Tongass timber from about 2,700 timber jobs in 1980 to about 1,420 jobs in 1986.

Section 705(a) was based on the Forest Service's projection in the land management plan that demand for Tongass timber would run from 400 to 450 million board feet per year and that employment levels could be maintained by providing this volume of timber to industry. Employment, however, cannot be maintained merely by ensuring that a timber supply is available. Employment is influenced by the amounts of timber sold and harvested, and these amounts depend as much on market demand as on supply. For this reason, we do not believe that Section 705(a)'s provisions for sustaining employment by ensuring the availability of timber are likely to succeed in depressed market conditions.

Neither the land management plan nor Section 705(a) provided the Forest Service with flexibility for supplying timber under varying market conditions. This lack of flexibility put the Forest Service in the position of preparing and offering timber it could not sell. This situation created controversy over the Forest Service's responsibilities for supplying timber to industry. The timber industry has maintained that the Forest Service has not met its ANILCA obligations because much of the timber supplied has not been profitable under existing market conditions. Forest Service officials, by contrast, have maintained that they need only supply timber that would be profitable under market conditions present when ANILCA was passed. We believe that the Forest Service is not required under ANILCA or any other legislation to supply timber that will guarantee a profit regardless of market conditions.

The lack of flexibility for supplying timber at reduced demand levels has also resulted in the Forest Service's spending about \$131 million for timber sale preparation and added investments to provide timber not needed to meet demand. Forest Service officials agreed that, in retrospect, the demand for Tongass timber could have been met without any added investments.

On balance, the Forest Service has taken steps, as I will discuss later, to make its timber sales program more efficient, as well as other measures, such as timber price reductions, to help industry deal with the market downturn. Nonetheless, if the controversies are to be more fully resolved, the Forest Service's responsibility for supplying timber to the Tongass timber industry

needs to be more clearly defined, and the timber supply provision of Section 705(a) made more flexible.

PROPRIETY OF THE USE OF FUNDS

Now I would like to turn to the propriety of the use of funds. The Congress established the Tongass Timber Supply Fund to finance the Forest Service's activities for supplying the Tongass timber industry with 4.5 billion board feet of timber per decade. From fiscal year 1981, the fund's first year, through fiscal year 1986, the Forest Service spent about \$257 million. Some of these expenditures have generated considerable criticism and controversy. The Tongass timber industry and the state of Alaska have criticized the Forest Service for using the fund for such things as administrative roads and facilities. They contend that these roads and facilities should have been financed with other Forest Service appropriations because they are not used to directly support achieving the supply goal of 4.5 billion board feet per decade.

From 1981 through 1986, the Forest Service let contracts for about \$10 million to build four administrative tie roads totaling about 43 miles. The Forest Service also spent about \$20 million from the fund for facilities including housing complexes and work centers. Forest Service officials told us that these facilities and roads were built to improve employee safety, morale, and job efficiency by decreasing aircraft flights, and to reduce employee turnover by decreasing family separations.

We examined two of the roads and three administrative facilities that received the most criticism to determine if the fund was appropriately used for these items. We found that the legislative history of Section 705(a) gives little direction on how the fund should be used. However, we believe that, in principle, such expenditures are justified if they can be shown to have a substantial connection, even if indirect, with the purpose of the fund--that is, ensuring a timber supply of 4.5 billion board feet per decade to industry. Availability of the fund for a particular road or facility can only be decided on a case-by-case basis. For the roads and facilities we examined, we found that such a connection could be made. Thus, we believe the expenditures were consistent with the law.

The Forest Service has also been criticized by the industry for not using the fund to augment, or subsidize, the road-building costs that firms with existing contracts--primarily the two long-term contracts--are obligated to build. Industry contends that the employment goals of Section 705(a) would be better served if the Forest Service used the fund to augment road construction costs, through direct payments to contract holders, thus improving the immediate profitability of timber operations.

The USDA's Office of General Counsel has ruled that the Forest Service cannot use the fund to augment the cost of building roads that firms with existing contracts are obligated to build because (1) to do so would violate the principle that a federal agency may not surrender a contractual right without getting

something in return and (2) the proposed procedure would interfere with the required competitive bidding process. The Department believes that ANILCA does not permit the Forest Service to override these requirements.

We believe that the Department's position is consistent with the law and legislative history. It does not appear that funds provided under section 705(a) of ANILCA can be contributed directly to holders of existing timber sales contracts in the Tongass for the purpose of reducing costs of road construction for which the holders are contractually obligated.

TIMBER SALE REVENUES AND COSTS

Our congressional requestors asked us to compare the revenues and costs from the Tongass timber sales program for the latest year for which data were available. When we did our work on the program, the most recent year was fiscal year 1986.

Determining revenues and costs involves making a number of accounting decisions, particularly about how multi-year costs should be handled. During 1986, for example, the Tongass timber sales program had expenditures of \$47.9 million and revenues of \$3.3 million, for a net outlay of \$44.6 million. This net outlay does not represent a loss, however, because part of these outlays relate to revenues that will be received in future years. The costs to grow and sell a timber stand are generally incurred for many years before and for several years after any revenue is generated.

In 1987, in cooperation with the Forest Service, we developed a basic design for a cost accounting system that could track timber sales program costs and compare them with revenues. We used this new cost accounting system's concepts to calculate the revenues and costs for the Tongass. Appendix I of my testimony summarizes the results. In fiscal year 1986, the timber sales program generated revenues totaling about \$3.3 million. To produce these revenues, the Forest Service incurred costs totaling about \$25.5 million. Thus, the timber sales program lost about \$22.1 million. In addition, the Forest Service paid \$433,000 to the state of Alaska.

ACTIONS TAKEN BY THE FOREST SERVICE

The Forest Service has taken some actions to deal with the size of the losses and to ease the industry's costs. First, it has increased the efficiency of its timber sales program. Instead of preparing timber sales at the rate of 450 million board feet a year, it now prepares timber sales only at the levels needed to replace the volume sold the previous year. This approach still ensures that 450 million board feet are available the following year, but it does so at less cost. The Forest Service estimates that the approach reduces staffing by 50 and costs by \$3.5 million a year. Second, the Forest Service has modified its added investment strategy by not starting road construction until after the timber sale has been awarded, and by providing a subsidy for road-building under new timber sales contracts. Third, the Forest Service has taken steps to reduce purchasers' harvesting and processing costs through such actions as easing road construction

standards so that construction costs can be cut and enlarging the size of clear-cut areas so that a higher volume of timber can be harvested.

- - - - -

We believe, however, that clarifications and fundamental changes are necessary. The almost immediate market decline after ANILCA seems to have resulted in conflicting perceptions about the federal role in supplying timber to the industry. Dealing with these matters requires attention from both the Congress and the Forest Service. To provide the Forest Service with more flexibility for supplying timber under varying market conditions, we recommended in our report that the Congress revise Section 705(a)'s provision that 4.5 billion board feet of timber be provided per decade. The provision should be revised so that the amount supplied would be based on the anticipated demand for timber and on the data currently being formulated by the Forest Service as part of its land management process rather than on a rigid per-decade requirement.

Mr. Chairman, this concludes my presentation. I would be happy to answer any questions.

TIMBER SALE REVENUES AND COSTS,
TONGASS NATIONAL FOREST, FISCAL YEAR 1986

Revenues

Timber sales	\$768,000
Purchaser road credits	2,506,000
Associated charges	62,000
Interest and penalties	<u>3,000</u>
Total	3,339,000

Costs

Sale activity allowance ^a	9,740,000
Growth activity allowance ^a	1,654,000
Single-year costs ^a	10,073,000
Facilities depreciation	494,000
Washington office costs	1,446,000
Research	2,044,000
Total	25,451,000

Loss before payment to state	(22,112,000)
Payment to state	<u>433,000</u>
Net loss	<u>(\$22,545,000)</u>

^aincludes regional office costs.